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The role of state institutions in the process of economic development

A study of the Italian Mezzogiorno

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Institutions are part of our everyday life and constitute an important and binding agent of societies. Institutions in fact are, above all, organizations whose role is to organize the way people interact. Institutions have been defined as "a set of socially prescribed patterns of correlated behaviour" (Paul D. Bush 1987: 1076) or as "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)" (Douglas C. North 1991)

The "Mezzogiorno d’ Italia" is a macro region with economic and cultural connotations that are different from the rest of the Italian Peninsula. This macro region corresponds, to a large extent, if not fully, with today’s "South". The regions to which the area corresponds are: Sicily, Sardinia, Abruzzo, Basilicata, Campania, Calabria, Puglia and Molise.

This study will discuss the cultural and economic divide between the North and the South of Italy while attempting to highlight that institutions have an important role in shaping the development and economic growth of a nation. To provide the reader with the necessary level of contextualization this paper discusses elements of historical, geographical, economic and anthropological nature, which contributed to the markedly distinctive character of the South of Italy.

This report discusses the concept of institutional change and presents a perspective on theoretical approaches developed on the issue of societal evolution. One approach is developed in the context of neoclassical economics, which uses methodological individualism. The second one, which is ideologically closer to the tradition of Original Institutional Economics (OIE) or American institutionalism, and in its analysis of economic theory applies methodological holism. We discuss the ideas of Professor Douglas C. North on societal and institutional change, while also presenting the ideas brought forward by Veblen, Bush and other various scholars. This research also attempts to address the question of the influence that values have on institutions’ effectiveness and design, and
institutional change.

Furthermore we discuss the importance of culture in determining the values that are shared by a civilization and we highlight how cultural differences can be determinants of the relationship that is established between people and institutions. We also introduce Hofstede’s studies on cultural dimensions and we debate on the impact that those have in economic development.

Finally we partially examine the role that IRI, the Italian Institute for the Industrial Reconstruction, had in development of strategic industrial sectors in the South of Italy and, with reference to the arguments of Mazzuccato and Eisinger, we propose that demand side economic policies, and hence an entrepreneurial role for the state, are essential conditions to generate economic growth.

| Keywords | Institution, Mezzogiorno, “questione meridionale”, Southern question, economic development, methodological individualism, methodological holism, institutional change, cultural dimensions, hierarchy of needs, entrepreneurialism, State. |
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1 Introduction

1.1 Objectives, topic statement and limitations of this study

The objective of this thesis is to propose and argue a series of answers to the question of what has been the role of institutions in the process of economic development of the Italian Mezzogiorno. Our investigation will forgo a general analysis of all institutions while focusing on the ones that we believe have had a larger specific weight in determining the economic development path of the region we are investigating. From the historical perspective this work will be concentrating mostly on the periods during which the North-South dichotomy was built rather than the last decades during which a great deal of work has been done to change the status quo and to recompose the fracture that has de facto divided Italy in two separate entities since the birth of unified Italy. Our attention to a specific set of events is not intended to constitute prejudice towards the more contemporary history; conversely by presenting the history in connection with the current situation we intend to offer the reader the basic notions that can foster a more deeply rooted interest in the modern vicissitudes of the South of Italy.

Eventually the study will take into consideration how institutions could be changed and re-designed to contribute more significantly to the development of the Southern Italian regions in their quest towards an inclusive and "open access" society. (North, D. C., et al. 2009: 56) This paper considers institutions to be a reflection of a society’s culture and a set of formal and informal norms. We will argue that in the case of the Italian Mezzogiorno, from the time of the unification of the Italian state, the imposition of an institutional format that was an expression of a different societal background, significantly altered and negatively affected the development opportunities of the entire Italian macro area, bearing consequences on the economic development of the whole country.

1 For a more detailed digression on North’s theoretical framework on open access society see chapter 3.2
For reasons brought forward in the introductory section of this thesis, the author will reflect on the importance of historical, geographical and social factors that affected the characterization of our area of analysis. Firstly, and to provide the reader with the necessary historical contextual information, we will present a digression of the history of the Mezzogiorno. The study will later attempt to offer an account of the Southern Question by briefly analysing the most important features that contributed to the Mezzogiorno having a reputation of backwardness and poverty. The immense literature available on the "southern question" and on the role of institutions has certainly benefited our study. However, the same abundance of academic writing, historical, geographical, economic and anthropological literature, imposes limits to the breadth of this particular paper. The author will present a selected number of opinions and observe a limited number of studies. Having taken into consideration the elements above we agree that this paper will be far from presenting a conclusive argument of the subjects under analysis.

In our research we will also aim at explaining how Italian economic history has been characterized, since at least the XIX century, by an evident conflict in the development of its northern and southern regions. We will argue that marked and documented economic, cultural and social differences between northern and southern Italian regions have existed since before the Italian unification process began in 1861. We will discuss how large these differences were and we will consider how the above-mentioned differences contributed to virtually divide the Italian peninsula in two parts. As historians, economists, politicians and academicians have all debated and disagreed significantly on the main drivers of this fundamental difference, we will synthetically present some of their positions that are relevant to our objectives.

Our main topic of interest will not however digress into an historical pursuit to search for a decisive answer to which geographical area was more advanced at the time of unification. We will instead use our sources to markedly highlight the heterogeneity, from the many tangible and intangible perspectives, of the cultural frameworks in which the North and the South of Italy had developed. In addition, using the theoretical framework developed by economists, institutionalists and other scholars, we will investigate how these differences have influenced the transition from a "limited access society" (North, D. C., et al. 2009: 56) to a more dynamic open access one.
As North explained in his lecture at the University of Philippines for the centennial of the School of Economics, dedicating time to comprehending the beliefs and the institutions of a nation is an essential prerequisite to understand how that civilisation can progress from a limited access and develop into an open access type of society. North also argues that beliefs have a crucial role as belief systems differ between societies and determine the way we judge behaviour and observe reality from very different perspectives. North determinately supports the idea that the principles that are shared by a society are the product of the experiences a specific group of people had, and that those experiences change significantly from one culture to another. (North 2008)

The study of Institutional economics and North’s framework, will be one of the core elements of our study. We will approach the issue of “the credible commitment of the state” and we will support North’s ideas that a working judicial system, the rule of law, its enforcement, and low cost of transaction are all necessary to sustain development and growth. (North 1993: 7)

As the paper will focus on the importance of institutions to sustain the economic development of a nation, the author will also try to recompose different opinions and perspectives to illustrate the theoretical framework and discuss the views of the two most relevant schools of thought in the field of Institutional Economics. Together with the ideas brought forward by North we will look at other scholars who have grappled with the topic such as Thorstein Veblen and Paul D. Bush. We will present a short analysis of Professor North’s branch, which derives from neoclassical economics

2 North, D. C., 2008, UP School of Economics, Centennial Lecture on Institutions and Development, [online] (Video)

3 North, D. C., 1994, in Institutions and credible commitment writes: “How have economies in the past developed institutions that have provided the credible commitment that has enabled more complex contracting to be realized; and what lessons can we derive from that experience that will be of value today in the on going process of building or rebuilding economies?”

4 North, D. C., 1993, in The new institutional economics and development, (Washington University) writes: “While economic growth can occur in the short run with autocratic regimes, long run economic growth entails the development of the rule of law and the protection of civil and political freedoms.”
background and in economic analysis uses *methodological individualism*. Hodgson offers a valuable explanation of neoclassical theory:

> Neoclassical economics... may be conveniently defined as an approach which (1) assumes rational, maximizing behavior by agents with given and stable preference functions, (2) focuses on attained, or movements toward, equilibrium states, and (3) excludes chronic information problems (such as uncertainty of the type explored by Frank Knight and John Maynard Keynes). (Hodgson 1998: 169)

We will also take a look at some of the ideas developed in the current of the Original Institutional Economics (OIE) or American institutionalism, which applies *methodological holism* to economic analysis and institutional change studies. This paper will attempt to briefly summarize the two schools’ views, contrapositions and points of contact with the clear understanding that the philosophical subject area is much more complex and variegated than this particular study can portray it.

Keeping at heart the idea that institutions are essential in creating and shaping a framework where economic growth can spur and be sustained, we will analyse the context of the Italian *Mezzogiorno* and look at the role that institutions have had and still today have in supporting and, in other cases, constraining economic development.

1.2 Applicability of the research topic

The subject could evidently be of interest for the on-going debate on development economics and development policies that prevails in Europe. In addition, considering the present historical context during which European institutions are being shaped and remodelled, we believe that investigating the nature of institutions and how they could be instrumental in sustaining change and innovation is important for creation of a context where to develop our future.

The relationship between institutions and the development of a nation should be a very relevant aspect for all politicians, policy makers and advisers who, while in office, want to actually offer a contribution to the society. This study will investigate economic development and discuss the relevant economic issues that can help us highlight the
divergent path of North and South of Italy. It is the author’s belief that the issue of institutional absence in specific areas of Italy has not only been the cause of a slow, if not absent, improvement of economic conditions, but it has perhaps been the specific most significant aspect in the development of degenerating factors such as an unceasing net emigration and the growth of organized crime and terrorism.

This study bears a specific interest for Italian politics and the current political and institutional agenda of the Italian government. We reason that this research could be used as a starting point for a more complex investigation to suggest a possible answer to the question of how to improve the general condition of the country’s economic and societal development. It is our conviction that because of the level of interdependence between the North and the South, the Italian government could and should produce a better effort to improve the economic development of the economically weaker areas. This, as has been often argued, (De Andreis et al. 2014: 13-15; Ridgwell 2011; Viesti 2011: 95-137) would have a non-negligible impact on the Italian economy and would constitute an important structural advancement, with a progressively bigger impact on the economy. The Southern regions represent an enormous challenge, but at the same time they also present a great opportunity with a pool of talents, ideas and a workforce that have so far struggled to express their potential due to the inadequacies of the institutional context in which they endure.

1.3 Research approach

The objective of this research is to discuss the role that institutions have in economic development, in the context of the South of Italy. This paper is based on a study of the theories and the academic discussion around our area of interest. For this reason our discourse uses uniquely secondary research.

The author’s findings and conclusions are based upon theoretical associations, argumentative juxtapositions and conjectures based on the findings of the research that was studied for this thesis. To identify and specify our subject of study we conducted a preliminary research, which was directed towards acquiring a large number of information on issues regarding the whole subject of Institutionalism and Institutional Economics. The research included books, newspaper and journal articles,
blog posts, videos, statistical data and numerous papers published on the subject of institutions and the economic issue of the South of Italy. This part of the research was thought to methodically acquire important background information and to gain the necessary perspective to start composing different analysis angles.

The author has used economic, geographical, historical, and anthropological literature, journal articles, blog entries and interviews of notable economists and authors. The preparatory literature research was geared towards understanding the historical context and the sociocultural environment of Southern Italy.

Our research benefits from economic and financial data such as Gross Domestic Product, industrial production, literacy percentage as well as unemployment rate and productivity data indicators. While the statistical data has been taken into consideration in the discussion of the subject and in the rationalization of our conclusions, this dissertation will mainly refer to GDP differences with some reference to literacy and unemployment rates. Istat, Eurostat, Maddison and Tagliacarne institute⁵, are the main data sources that are used directly in this study.

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⁵ The Tagliacarne institute promotes economic culture and works in the field of economic-statistical analysis and studies for SME and on the economy of the territory.
1.4 Analytical approach and literature review

This study uses deductive reasoning to test our hypothesis that institutions, following the evolutions of the societies by which they have been built, should have a primary role in enabling the economic sustainable development of a country.

Historians have debated on the origin of the differences between the North and the South of Italy. Saraceno supports the view of a non-negligible difference in the economic development between northern and southern regions:

Notable differences existed, in fact, under the socioeconomic profile, between the different States that were unified and out of which was created, between 1859 and 1870, the new Italian state. The differences were especially relevant between the centre-north states and the Kingdom of two Sicilies. The differences were so relevant that we could reduce to the dichotomy North-South the notable differences that, under the economic aspect, existed at the time of unification between Italian regions and even within the Mezzogiorno itself.6 (Saraceno 2005: 136)

The view of Saraceno is shared among many intellectuals, however other historians had and have a different idea regarding the degree of the difference between the two areas of the peninsula. Federico actually greatly reduces the relevance of the economic gap between North and South and as he puts it:

In theory you cannot even exclude that the South was initially more productive and hence that the growth of the total productivity of the factors in the North perhaps reflects a process of convergence (...). Yet at the end of the XIX century the southern farmers produced more than one third than their northern counterparts, while in 1951 the productivity was 40% higher in the North.7 (Federico 2007: 320, 323)

6 Own translation. Original text: “Notevoli differenze esistevano, infatti, sotto il profilo sociale ed economico, tra i diversi Stati la cui unificazione diede vita, tra il 1859 e il 1870, al nuovo Stato italiano. Le differenze erano specialmente rilevanti tra gli Stati del Centro-nord, da un lato, e il Regno delle Due Sicilie dall’altro; tanto rilevanti da autorizzarci (...) a ridurre al divario Nord-Sud le molte differenze che, sotto l’aspetto economico, esistevano all’atto dell’unificazione tra le regioni italiane e all’interno dello stesso mezzogiorno.”

7 Own translation. Original text: “In teoria non si può neppure escludere che il Sud fosse inizialmente più produttivo, e che quindi la crescita della PTF [produttività totale dei fattori] nel Nord rifletta un processo di convergenza” (...). “Ancora alla fine del XIX
Relevant to this study is description of the Southern Question given by Pescosolido:

With the expression ‘Southern Question’ or ‘questione meridionale’, or Mezzogiorno Question’, we refer to, since the Italian unification in 1861, a complexity of problems posed by the existence, the unitary state, of a macro-area made of the regions of the ex kingdom of the two Sicilies which, in a geomorphological and climatic significantly different context from the one of the centre north of the peninsula, was presenting a lower level of economic development, a more retrograde system of social relationships and slower and more problematic evolution of important aspects of social life. Already at the end of the XIX century the entity and nature of these differences were enough to generate talk about “two Italies” which, in addition, had long started looking at each other with strong antagonism and judging each other with increasing disesteem and distrust. In non-marginal sectors of the public opinion and of both northern and southern culture, when it did not come to theorize a racist origin of the differences, it anyway existed a feeling of hostility and suspicion which then remained a non secondary component of the Southern Question until the present day, in addition to socioeconomic factors and together with a weak degree of cohesiveness of the whole national community. Political, economical, social, anthropological, cultural and psychological factors have hence interconnected, since the Unification, in the complex entanglement of southern Italy, with an effect both different and mutable in time, but without ever being able to reach a life condition in the southern regions because of which you could argue of a complete cessation of the socioeconomic gap between North and South, and hence without ever finding a definitive resolution of that which has remained, in the span of 150 years of life of the Italian state, the major unresolved problem of the Italian national history. This does not mean that living conditions in the Mezzogiorno, in absolute terms, have not improved in a radical way. What has not changed, unless in a very moderate way, is the economic and social imbalance between the two macro-areas, measured in terms of income and other fundamental parameters of economic and civil life.”

(Pescosolido 2004, Treccani Encyclopedia)

secolo, i contadini meridionali producevano un terzo in più di quelli settentrionali, mentre nel 1951 la produttività era superiore del 40% nel Nord.”

8 Own translation: Original text: “Con l'espressione ‘questione meridionale’, o ‘questione del Mezzogiorno’, si è indicato, a partire dall’Unità d’Italia, un insieme di problemi posti dall'esistenza, nello Stato unitario, di una macro area costituita dalle regioni dell'ex Regno delle Due Sicilie, la quale, in un contesto geomorfolo•gico e climatico marcatamente diverso da quello del Centro-Nord della penisola, presentava un più basso livello di sviluppo economico, un più arretrato sistema di relazioni sociali, una più lenta e contrastata evoluzione di importanti aspetti della vita civile. Già alla fine del XIX secolo l'entità e la natura di queste differenze erano tali da far parlare di 'due Italie', le quali, per di più, avevano preso da tempo a guardarsi con forte antipatia e a
Having consolidated the background for the discussion on the Southern Question that will support our study, we will progress to the sections more strictly concerning institutions. Our proposition matches with North’s idea that institutions are the main tool that we can use to realize how the mechanisms of a civilization work. North in fact suggests that institutions define the structure that regulates how individuals ought to behave. (North, D. C., 2008) This paper supports the idea that changing the institutions of a society may be the crucial part in designing a framework where economic development can be achieved and sustained. On the same subject Cypher and Dietz agree on the needs for institutional change in order to support development, and they state that:

Development is fundamentally about regime change and about the search for an optimal growth path, or at least one that is superior to the current allocation of resources and current efficiency levels. ... Fomenting development typically requires new institutional patterns and organizational structures necessary to support such a dynamic process of change. (Cypher & Dietz 2004: 17)
Following the lead of Marianna Mazzucato, this thesis will also argue that government and institutions, often relegated to the role of a bureaucratic monolith, can also be active innovators and motors of positive change and economic growth. Mazzucato expressly investigates the topic of innovation and the role that the state can play, as opposed to how the private sector interprets entrepreneurship. The work of Mazzucato is particularly interesting for our thesis because it corroborates our view on the importance of the state in the process of economic development and suggests that the state can be not only an incubator, but also a motor of innovation. Economists around the world have recognized the role of the state in facilitating innovation. However Mazzucato argues that the state actually does much more than merely facilitates. In fact Mazzucato suggests that the state ought to be a risk taker in certain investment situations that would not appeal to the private sector (such as capital intensive industries or areas of business with a high failure rate). Being an entrepreneur, the state can also create the infrastructure and the preconditions to develop a new context for a new and synergic relationship between public and private.

As Mazzucato indicates:

The assumption that the public sector can at best incentivise private sector led innovation (through subsidies, tax reductions, carbon pricing, green investment banks and so on) — a claim being propagated heavily in the UK, especially but not only in the face of the recent crisis and ensuing deficits — fails to account for the many examples in which the leading entrepreneurial force came from the state rather than from the private sector. (Mazzucato 2010: 193)

As part of our study on the entrepreneurial state, we will also discuss the original progressive part played IRI¹⁰ in the development of certain industrial sectors in the Italian Mezzogiorno. IRI was considered an example of how nations could implement advancements in the development of economic sectors of strategic importance. Our thesis benefits also from the work of Stuart Holland and Peter Eisinger on the “entrepreneurial state” and from the work of Patrizio Bianchi and Sandrine Labory on the subject of industrial policy and the part played by the State in economic development. The discussion on the role of IRI on the Italian industrial development

¹⁰ IRI is the Institute for Industrial Reconstruction. Original name: Istituto per la ricostruzione industriale.
would however need much more space than this thesis can offer and our study will certainly not be able to discuss IRI’s activities comprehensively. For the above-mentioned reasons, in our endeavor to present a summary of IRI’s undertakings we will sacrifice important elements that would certainly merit a more adequate study.
2 Economic and cultural contextualization

2.1 The "Mezzogiorno d’Italia” and its cultural identity

We will define as "Mezzogiorno d’Italia” a macro region with economic and cultural connotations that differentiate it from the rest of the Italian Peninsula. The regions that are part of the “Mezzogiorno” are those that used to belong to the kingdom of two Sicilies with the addition of Sardinia. This study will discuss general issues regarding the whole macro area. We will leave out of our topic area many of the region specific questions that would merit a much wider space. Our choice will be based on the personal assessment of relevance to our topic.

Figure 1 shows the Southern Italian regions composing the Mezzogiorno by reproducing an ancient map of the Kingdom of the two Sicilies, which territories corresponded, (to a large extent if not fully), with today’s “South”. The modern regions to which the area corresponds are: Sicily, Sardinia, Abruzzo, Basilicata, Campania, Calabria, Puglia and Molise. However in the course of the study we will refer to Mezzogiorno as the less economically developed region of the Italian territory which is typically intended as geographically located South of Rome. (See also appendix 2 for maps of Italy before Unification and of present day Italy)
2.2 Hofstede and cultural dimensions

Clark wrote: “people of each nation have a distinctive, enduring pattern of behavior and/or personality characteristics” (Clark 1990: 66). This study will however suggest that the same distinctiveness can be found between the North and South of Italy, which are part of the same nation, but belong to profoundly different evolitional settings. To better comprehend the context in which the two Italian macro regions developed we will investigate their culture.

We briefly analyse the Italian cultural dimensions, with particular attention to the contraposition between northern and southern regions. We will take advantage of Hofstede’s work in which he theorized the existence of four cultural dimensions:

- Power distance
- Individualism versus Collectivism
- Masculinity versus Femininity
- Uncertainty avoidance

In addition, Bond and Hofstede posited on a fifth dimension called “Long-Term orientation” (Hofstede & Bond 1998: 5-21) and Minkov (Hofstede & Minkov, 2010)\textsuperscript{11} identified a sixth dimension that was named “Indulgence versus Restraint”.

Hofstede’s original four cultural dimensions are constructed to assess the following areas:

- The level of injustice that people accept as common in society
- The preference of personal realization over the group
- The existing inclination to pursue professional achievements rather than develop relationships based on the idea of caring for others
- How societies deal with unknown or unexpected situations

\textsuperscript{11} Source: Hofstede Centre
Our thesis briefly discusses Hofstede’s cultural dimensions, and especially those aspects of the cultural dimensions in connection with economic growth and GDP per capita.

*Power distance* explores how capital, status and influence have been distributed among society. Hofstede defined it as “the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally.” (Hofstede 1997: 28)

*Individualism versus Collectivism* relates to the rapport that people have with each other in different cultures. In individualistic societies people worry mostly about their own self-interest, whilst in collectivist type of society people give more importance to the interests of the group. (Soares 2007: 280) The United States of America attained the highest score for individualism. This led to thinking that individualistic behaviour contributed to national wealth. However “data show that the causality is most probably reversed: wealth tends to lead to individualism.” (Hofstede 2011: 17)

*Uncertainty avoidance* relates to the tendency of a society to avoid unexpected situations. Ambiguous situations can in fact menace the order of things, generating chaos, a situation whose outcome cannot be predicted. Societies with a high score for uncertainty avoidance tend to create a great number of rules, formal and informal, to make sure that the behaviours, relations and life itself become more easily predictable. (Hofstede cited in Soares 2006: 280)

*Masculinity versus femininity* serves the purpose of evaluating what are the values that a society holds as most valuable. A masculine society holds professional success, money and business results as paramount, whereas in a feminine society values such as building personal relationships and trying to find a balance between personal and professional life are considered to be more significant. (Soares 2007: 280)

The concept of a fifth cultural dimension called *Long-term versus Short-term orientation* (also known as *Confucian Work Dynamism*)\(^\text{12}\), was developed by Michael Bond.

\(^{12}\) “As all countries with a history of Confucianism scored near one pole which could be associated with hard work, the study’s first author Michael Harris Bond labeled the
Harris Bond. (Hofstede 2011: 13) Bond’s research tries to evaluate how many cultural connections a society maintains with its past and suggests that a society with high value in this dimension will typically put a greater effort in improving its current condition to approach the future from a better position. Conversely, a society with low score in this segment is more concerned with maintaining the present social order and is also more likely to focus on upholding the value that transmitted from past generations. (Hofstede 2011: 13-15)

The sixth dimension called *Indulgence versus restraint* was added to the Hofstede model only in 2010, thanks to the research work of Minkov. As Hofstede indicates:

Indulgence stands for a society that allows relatively free gratification of basic and natural human desires related to enjoying life and having fun. Restraint stands for a society that controls gratification of needs and regulates it by means of strict social norms. (Hofstede 2011: 15)

There has been a series of studies concerning the correlation of the cultural dimensions and economic performance. Tang and Koveos (Tang and Koveos 2008 cited in Friedman 2012: 99) found a relationship between GDP and power distance as they pointed out that “power distance first increases and then decreases with GDP per capita.” Also Cox, Friedman and Tribunella point out that “Hofstede found a significant relationship between GNP per capita and power distance and individualism. GNP per capita was positively related to individualism and negatively related to power distance.” (Cox et al 2011: 47) Furthermore, Bond and Hofstede established that a positive correlation existed between the long-term orientation of a country and fast economic growth. Contrarily it was posited that short-term orientation is associated with poor performance. (Hofstede Centre)

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dimension *Confucian Work Dynamism*” (Hofstede 2011: 13). In Fig. 2 Hofstede refers to Long-term versus Short orientation as pragmatic versus normative.
Fig. 2 Italian national cultural dimension score

As shown in fig. 2, Italy scores particularly high on individualism, masculinity and uncertainty avoidance. These results offer the image of a country where the top priorities are personal realization, achieving professional success and status and where there is a strong preference to avoid uncertain situations by making rules and laws that can cover every variable.

Although the general characterization given by Hofstede can fit the average, we also know that between North and South exists a fundamental difference in the score for Individualism and Power distance. In fact, in southern Italy the behavior observed is not as individualistic as in the North and family and social relationships have a greater significance. (Hofstede Centre) The difference in Power distance with a low score for the North and a high score for the South (Hofstede Centre), highlights how inequality and centralization of power find a cultural justification in the South, due perhaps also to a history of domination and feudalism as opposed to the phenomenon of municipality in the North\(^\text{13}\). In addition, as pointed out by Hofstede a causal relationship exists between growth of wealth and individualism. (Hofstede 2011: 17)

Hence the divergence observed between the North and the South of Italy can also be partially attributed to the different economic development experienced by the two regions.

\(^{13}\) For more information on municipalism see also chapter 2.3
The results of Hofstede’s studies are crucial in obtaining a correct cultural perspective, although the author believes that for countries with high level of heterogeneity, it would be more revealing to conduct a partial study for each macro-area.

2.3 The historical and geographical identity of the Italian Mezzogiorno

Institutional Economics has been described as “evolutionary economics ... because it has the capacity to explain the phenomenon of institutional change” (Bush, P. D., 1987: 1075). Following this principle we support the idea that a historical background is necessary to better understand the evolutionary nature of our subject.

The Southern Question cannot be understood without considering the broader history of the Italian peninsula as a whole. In fact while the problems afflicting the Italian Mezzogiorno are often unique to its territory, this study wants to highlight how factors that have contributes to shape the identity of the South of Italy have a breath that goes beyond its borders. In Jean Poncet’s words:

There apparently exists some kind of geographic coincidence / link between developing countries and tropical and subtropical zones /areas. Underdevelopment is affecting countries, which are in the “temperate zone”, only exceptionally. We call these regions “depressed". Therefore, shall we really believe in some kind of geographic determinism? Hasn’t this idea been rejected for a long time – for good reasons – as a major principle, explaining human facts?14 (Poncet 1969: 63)

We will take under analysis the historical identity and the geographical distinctiveness of the entire Italian peninsula. More circumstantially in this study we point out that

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14 Own translation. Original text: “Il existe apparentemment une certaine coinncidence géographique entre la sphère des pays du « Tiers-Monde » sous-développé et les zones climatiques tropicales ou subtropicales. Le sous-développement n’affecte qu’exceptionnellement des pays appartenant à la zone tem périée, encore qu’on puisse souvent parler, dans ce dernier cas, de régions « déprimées ». Faut-il croire, pour autant, à la valeur d’un déterminisme géographique qui a cependant été rejeté depuis long temps — et à juste titre —, comme principe majeur d’explication des faits humains ?”
understanding the defining elements of the character of the Southern Italian regions is
a necessary precondition to study the evolutionary path of the country and its highly
differentiated societal stratifications. We support also the idea that religion does affect
the belief systems of a society and can play an “ambivalent role in different contexts”.
(North, 2008)\(^{15}\) Religion can in fact be opposed to drastic changes and shifts in power,
however in other circumstances can even be a driver of change and experimentation.
Nevertheless the space of this whole study would not be sufficient to discuss all Italian
history since 1861, nor to assess the impact that Catholic religion had on the formation
of political institution in Italy. To neglect it does however not represent a denial of its
significant function, but instead recognizes the need of a broader approach. For the
reasons above, our discussion will be limited to key elements of Italian history that
have had a more significant impact on the matter of economic and societal
development and institutions.

Our investigation supports the approach that argues that the institutions of a country
are the result of its societal dynamic, which is in turn strongly influenced by the
historical traits of a national state. This study will also briefly discuss a number of
historical and geographical elements that are indispensable to understand the
transformations of the Italian society and to accurately contextualize the present
economic and social developmental stage of the Italian Mezzogiorno. As suggested by
Galli della Loggia (2010: 7) we take a look at Italy’s position on the map, and we argue
that its geographical characteristics have been of extraordinary importance in
determining the character of the nations and that the environment should be taken
into considerations because of the consequences and effects that derive from it. In an
interesting historical recollection of the Italian identity, Galli della Loggia points out
how the mountainous character of the peninsula, together with its inclination to
explore the commercial seaways, impacted the way society organized itself both in the
North and the in the South. Galli della Loggia strongly supported the argument that the
absence of a cultural contamination between the Tyrrhenian and the Adriatic coastal
cities, sea trade, and outward directed commerce routes were at the core of the
anthropological transformations that have modelled two extraneous and seemingly
incompatible cultures that then developed dissimilar set of values and thus constructed

\(^{15}\) Douglas C. North, 2008, UP School of Economics, Centennial Lecture on Institutions
and Development, [online] (Video)
different institutional settings. (Galli della Loggia 1998: 14-28) The cities tended to create distance between them and this created a fractionated environment where differences became even larger and the distance existing between the North and the South continued its route towards becoming irreconcilable.

For a long period Italy saw a growing influence of the maritime centres, especially Genoa and Venice, which articulated a vast commerce with different geographical areas, the Iberian Peninsula and the Aegean coastal cities. The frequent exchanges and the movement of people along with goods and the consequent societal contaminations pushed outwards the cultural boundaries of the two biggest Italian maritime centres. Genoa and Venice had relatively few contacts and a negligible trade with the inland part of the Italian peninsula and the neighbouring municipalities that had formed in the territory. These circumstances, paired with a well documented municipal introversion that characterized Italy since the Roman period (Italy has over 8000 different municipalities), and that established itself during the Medieval time and the Risorgimento, had a multiplier effect which resulted in a higher propensity to absorb the cultural elements that came from abroad.16

History and position are important for the development of every state, but we will look at how in particular for Italy its lack of a “central space” augmented the impact of different cultural influences in different regions. Position and geography favoured contacts with different civilization and this in turn influenced the development of different regions: Sicily with Greece and Magna Graecia, and the Lion market for the Lombard Venetian silkworm markets. Not to be undervalued is the fact that these different stimuli received from outside, and from so many different cultures, helped Italy to maintain a prominent role in world history. The big differences in the country morphology have had consequences in anthropological differences. (Galli della Loggia 1998: 7)

16 The issue of the formation of institution and institutional change will be treated more in detail in chapters 3.3 and 3.4
To stress the importance of the phenomenon of cities and the different impact that municipal society and organization had on the Italian territory and in the development of identity in Italy we will use a map from Giovanni Antonio Magini.

Fig. 3: Magini version of the map of Italy
Source: Quaini, M., 1976: 3-49

Magini, a well-known scholar who had been preferred to Galileo Galilei to lead the Mathematics faculty at the university of Bologna (North, J., 2008: 169), had developed a deep understanding of the dynamics regulating the pre-unitary Italian society. In fact he drew a map where the north of the peninsula borders depended on the influence of a particularly powerful and influential municipality, whereas in the south of Italy, where the municipalities where not as prominent, Magini decided to use the Kingdom borders. Although the Italy of regions was under constructions, Magini realized that using the borders of the municipalities for the south of the peninsula would have simply not been a reflection of the truth as it proved for the north. (Galli Della Loggia 1998: 75-77)
Cities and municipal organizations were the most common form of organization in the centre north of the peninsula. This helped to consolidate the feeling of localization by dividing the population under a very broad number of separated entities and organizations that were often opposed to one another. Paradoxically, in the south of the country, where municipal organizations were neither strong nor common, and where feudalism still had relevant repercussions, it became easier to develop a more centralized state culture to ultimately oppose the tenacious power of the barons who dominated the South of Italy during centuries of feudalism. (Galli Della Loggia 1998: 59-84)

2.4 Elements of Italian history of economic growth

Far from being a comprehensive recollection of all historical facts that helped shaping the history of Italian economic growth, this section will present a portion of history that has been selected arbitrarily to depict the economic situation that covers an important moment of Italian history and economic development.

As pointed out by Toniolo in his History of the Italian economic growth (Toniolo 2013: 1), when Italy was unified in 1861 it was a very poor country, and the GDP per capita was more or less equal to today’s average of the 42 richest African states (Maddison 2001 cited in Toniolo 2013: 9). To offer a small window on the developmental conditions of the country we will take a look at GDP per capita, life expectancy, the level of literacy and the income distribution, which in 1861 saw the Gini coefficient at 0,5. (Vecchi cited in Toniolo 2013: 3)

The situation was very difficult on all four fronts and Vecchi indicates that around 40% of the population was living under the minimum level of absolute poverty. (Vecchi 2011: 295) Literacy was low in the whole country, but in particular it was low in the southern regions. Felice and Giugliano on the other hand suggest that the reasons for the South’s backwardness need to be found in the educational system differences:

The reason literacy was so low in the Southern regions was that, until 1861, they formed a different state, the Kingdom of the Two Sicilies, which did not promote compulsory education, unlike the pre-Unitarian states of Northern Italy. Once compulsory education was extended to the
South (from 1861) and after adequate financial resources were spent for its provision by the Italian State (from 1911), the Southern regions converged in literacy. (Felice, F. & Giugliano, F., 2011: 4)

Following the thesis of Felice and Giugliano, education and tutelage are widely considered to provide the most vital help points in educating a nation. The institute of education, which also includes learning to respect the rule of law, becomes a pillar of societal development. Education may in fact contribute to creating a more egalitarian relationship between the state, whose role is to create and enforce rules, and its citizens who ought to know their civil rights and feel compelled to contribute to the bettering of society by taking part in “the public thing”, the "res pubblica".

Once the importance of education for the development of a nation is established, the effect of the data reported in fig. 4 becomes even clearer. Figure 4 features a table indicating the percentage of people not being able to read and write in Italy, in the years between 1861 and 2011. The data (Istat source) shows us how illiterate the Italian Peninsula was and how it progressed towards almost full literacy today.

Fig. 4¹⁷: Percentage level of illiteracy in Italy from 1861 to 2011
Data Source: Istat

Regardless of the initial situation, the general living conditions improved drastically over the decades and as shown in figure 4 also literacy registered an important growth. Observing the level of literacy and economic development in 1861 Italy becomes particularly relevant when taking in consideration Gerschenkron and the idea that a less developed society can take advantage of technology and tools that have been developed by others at greater cost. Gerschenkron in fact argues that when a traditional economy manages to surpass the initial difficulties on the road to economic progress, then the initial backwardness that makes economic advancements difficult can become an advantage. (Gerschenkron 1962)

Gerschenkron says that backward economies will experience a different type of growth. He specifically indicates that the growth rate and the initial backwardness of a country are inversely proportional and the more backward a country is, the faster the acceleration in the growth phase will be. (Gerschenkron cited in White 2009: 283) Per his own admission, Gerschenkron ideas are in the tradition of the “Marxian generalization according to which it is the history of advanced or established industrial countries which traces the road of development for the more backward countries.” (Gerschenkron 1962: 6) As Marx puts it “the industrially more developed country presents to the less developed country a picture of the latter’s future” (Karl Marx, Das Kapital).

Gerschenkron also theorized that less developed nations could achieve faster economic growth by taking advantage of technologies developed by others and use them for their own benefit. (Gerschenkron 1962) Also Chenery supported this position; he too was convinced that nations, which developed at a later time, were to follow a different path, which in Chenery “stems from the existence of the advanced countries as a source of technology, capital and manufactured imports, as well as markets for exports”. (1975: 458)

With reference to the economic development of Italy, Toniolo writes, “we know that the North of Italy between the XIII and XVI century was perhaps one of the richest areas in Europe with a GDP per capita 35% higher than the average of Western

18 (Karl Marx, Das Kapital, 1st edit, preface)
Europe”¹⁹. Figure 5 shows GDP per capita Growth for the period 1896-1992. (Toniolo 2013: 8)

Figure 5 displays a positive growth trend for all countries taken under evaluation. The USA, which leads the group, presents a growth of GDP per capita unmatched in other countries during the same period of time. Below, figure 6 presents the average growth rate for a shorter period for Italy, Germany and France.

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¹⁹ Own translation. Original text: “Tra il XIII e il XVI secolo l’Ita- lia del Centro-Nord era forse l’area più prospera d’Europa. Nel 1500, il PIL pro capite superava del 35% la media dell’Europa occidentale.”
If we analyse only three selected countries the result shown by the data changes significantly showing a relative flattening of the GDP per capita growth between Italy, France and Germany.

With regard to the economic development of the Italian peninsula, if as discussed previously the economic differences between North and South of Italy were vast, it follows that the state could be held accountable for not having contributed enough to help the two areas come together. On the other hand, if the differences in economic development were not as large as some historians argue, then we could have the case for a state that actually contributed to creating the North-South contraposition in Italy. The question has so far remained unsolved and Toniolo suggests, “that the difference between North and South, although evident in many aspects, was probably less pronounced than what it would have become in the future”\(^{20}\) (Toniolo 2013: 12). What is however even more interesting to our study is that Italy, starting from a rather poor base, managed “between 1870 and 2008 to grow its real GDP per capita at an average

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\(^{20}\) Own translation: Original text “il divario Nord-Sud, anche se evidente in vari ambiti, era probabilmente meno pronunciato di quanto non sarebbe successivamente diventato” (Toniolo 2013: 12)
[annual] rate of 1.9%, which is a rate slightly higher than the one for Western Europe and almost equal to the GDP average growth rate of United States of America.\textsuperscript{21} (Toniolo 2013: 12)

In addition, during the second half of last century the speed at which Italian economy and GDP per capita grew were not dissimilar from the advancements seen in other European countries of similar size (see figure 6).

However, by looking at the detailed statistical and historical data prepared by Maddison (Maddison 2010) we can straightforwardly realize that in the space of 100 years, Italy grew faster than other European countries and the United States, averaging a 2.4% GDP growth rate.\textsuperscript{22} (See fig. 5 & 7)

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure7.png}
\caption{Percentage GDP per capita growth 1896-1992}
\label{fig:percentage_gdp_capita_growth}
\end{figure}

\textit{Source: Maddison 2010}
\textit{Data elaboration: Villanova 2014}

\textsuperscript{21} Own translation: Original text: “tra il 1870 (il primo anno di cui sono disponibili dati comparabili per un gran numero di paesi) e il 2008, il PIL reale pro capite dell’Italia è aumentato in media ogni anno dell’1,9%, un tasso leggermente superiore a quello dell’Europa occidentale e circa uguale a quello degli Stati Uniti.”

\textsuperscript{22} For a comparison, USA average growth rate for the same period was 2.0% and Japan was 3.1% (Maddison cited in Toniolo 2013: 13)
As discussed earlier, the data summarized in figure 7 indicates that Italy did experience a relatively long period of continuous growth. Nonetheless we also know that the country went through times of relatively poor growth (See Maddison 2010). As one would expect, over 100 years of surging growth had a very positive effect on the country’s economic development, with repercussion on various sectors of society. However, because of the potential shown during the period 1896-1992, the question of what caused the poor development performance registered in Italy during more recent times becomes even more pressing. Attempting to offer an answer to the question of lack of development in Italy, Toniolo suggests that if we look at the comparatively low average GDP between 1870 and 1896, and in modern times between 1992 and 2010, we can infer that during these periods Italy was not able to use its disadvantaged initial position and achieve a faster growth process as theorized by Gerschenkron. (Toniolo 2013: 13-23)

2.5 GDP as measure of wellbeing

In the discussion of the imbalances between the northern and the southern regions we presented some historical reconstruction and we used data such as GDP per capita growth rate to corroborate or deny certain assumptions. For the purpose of this study we will always talk of Gross Domestic Product as in the book definition reported here:

GDP measures the monetary value of final goods and services—that is, those that are bought by the final user—produced in a country in a given period of time (say a quarter or a year). It counts all of the output generated within the borders of a country. GDP is composed of goods and services produced for sale in the market and also includes some nonmarket production, such as defence or education services provided by the government. (IMF Website)

We are aware of the limitations of GDP as a unit for measuring wellbeing. The political and economic community has developed a thinking that generally supports a change in the use of GDP. It has been argued that GDP is a tool that could and perhaps should be somehow modified to better include all elements that contribute to a nation’s
wellbeing. Policymakers, economists, scholars and politicians have addressed the problem of GDP inefficacy and a consensus has been reached over the need to surpass the current definition of GDP. UN Secretary-General Ban Ki-moon said: "We need to move beyond gross domestic product as our main measure of progress, and fashion a sustainable development index that puts people first" (Remarks to the High-level Delegation of Mayors and Regional Authorities, New York, USA, 23 April 2012)

Already in 1934 Simon Kuznets had clarified “that the welfare of a nation can scarcely be inferred from a measurement of national income”, but GDP offered politicians a remarkably clear way to evaluate and communicate successes: its simplicity and straightforwardness were its success. The attention over the matter of GDP effectiveness never really disappeared and in 1968 even Robert Kennedy reaffirmed that "GDP does not allow for the health of our children, the quality of their education, or the joy of their play " (Kennedy R. 1968) 

As also argued by North:

If you look at the way we economists measure the well-being of people in different countries, you find we usually talk about per capita income: we take the income of a country and we divide it by the population and come up with a number. This is not the best way to measure well-being, but it gives you some notion of the enormous disparities. (North 2001: 319)

**Theoretical Framework**

2.6 Institutions and politics

In recent years the use of the term “institution” has seen an increasing interest from economists, academicians and the wider public. For Hodgson the more common use of the word can be seen as the result of “the growth in institutional economics and the

23 Speech presented at the University of Kansas, March 18th, 1968
use of the institution concept in several other disciplines, including philosophy, sociology, politics, and geography”. (Hodgson 2006: 1)

This attention can be partially explained by the fact that interest in the state, policy and institutions design has become more prominent due to the more complex interactions that states are involved in. Institutions are highly important in political analysis and political analysis has progressively become more important to understanding the way societies are organized and function.

Many scholars have attempted to define institutions, however a consensus over a single explanation has not been found. While we will not focus on the academic question around finding a common definition, for clarity and completeness, we will report the characterization given by North:

Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights). Throughout history, institutions have been devised by human beings to create order and reduce uncertainty in exchange. Together with the standard constraints of economics they define the choice set and therefore determine transaction and production costs and hence the profitability and feasibility of engaging in economic activity. 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 performance of economies can only be understood as a part of a sequential story. Institutions provide the incentive structure of an economy; as that structure evolves, it shapes the direction of economic change towards growth, stagnation, or decline. (North 1991: 97)

Undoubtedly institutions maintain a dependent relationship with politics. In fact state organizations are often designed and engineered by political power, which in turn uses them to exert its ruling on a much larger and structured scale. For the above reasons it is important to our subject that we clarify also what is politics.

A brief etymological digression can illustrate how already thousands of years ago the concept of politics had developed in the Greek society. The term politics originates from the Greek adjective πολιτικός, which in turn comes from the word πόλις (city).
The word *politics* (τά πολιτικά) was used for matters that were important for the whole community and hence important to the state (νόλις) and to its citizens (πολίτης). Furthermore it is interesting to note that the word *πολιτικός* (politician) and the word *νόλις* have the very same root (πολ-) of the word that indicates *the many* (οἱ πολλοί). (Treccani Encyclopaedia)

2.7 Society and Institutions

“Society may be thought as a set24 of institutional systems. An institutional system in turn, may be thought as a set of institutions. And an institution may be defined as a set of socially prescribed patterns of correlated behaviour.” (Bush, P. D., 1987: 1076)

The use of the term *institutions* in social sciences dates back at least to Giambattista Vico, which talks about it in his *Scienza Nuova* of 1725. (Hodgson 2006: 1) The full title of Vico’s major work was “*Principi di una scienza nuova d'intorno alla comune natura delle nazioni*” (Principles of a new science about the common nature of the nations), a title that clearly indicates the commitment of the author in establishing the principles at the very core of societal and national development. Vico’s work is relevant to our study as it confirms that the existence of institutions is bound to the historical period in which they exist.

In his *Scienza Nuova* Vico developed the historical concept of *corsi storici* (historical cycles), which he believed characterized in each society the process of development of each nation from its barbaric stage to the gentile phase. Vico believed that even nations that had developed apart from each other, geographically and in different time, would share certain basic principles of civilization such as religion, marriage and burial. In his *Scienza Nuova* Vico writes:

*We observe that all nations, barbarous as well as civilized, though separately founded because remote from each other in time and space, keep these three human customs: all have some religion, all contract solemn marriages, all bury their dead. And in no nation, however savage and crude, are any human activities celebrated with more elaborate ceremonies and more sacred solemnity than religion, marriage and burial. For, by the axiom [144] that "uniform ideas, born among peoples unknown to each other, must have a common ground of truth," it must*

24 “The term set refers to functionally interrelated elements” (Paul D. Bush 1987: 1076)
have been dictated to all nations that from these three institutions humanity began among them all, and therefore they must be most devoutly observed by them all, so that the world should not again become a bestial wilderness. (Vico 1725: paragraph 333)

Vico is convinced that the need of society to organize itself in a certain manner is a natural intrinsic characteristic of human beings. It is noteworthy that the *International Encyclopaedia of social sciences* argues on Vico’s considerations that:

He (Vico) did not rule out the possibility of cultural borrowing, but he insisted that cultures which have embarked upon their corsi will borrow only those ideas, institutions, and values which conform to their needs at the particular stage at which they have arrived by an inherent logic of evolution. Of course, it is possible for nations to become "arrested" in their development, or even annihilated, if they come into conflict with other cultures at more advanced stages of growth. But on the whole, cultures develop in response to needs and desires peculiar to them at specific times in their cycles. (White 1968: International Encyclopaedia of the Social Sciences)

Following Vico, and for the purpose of understanding the cultural development of institutions in the South of Italy from a primitive to a modern society, we believe that at the time of the national unification, the North and the South of the Italian Peninsula had developed such different cultures that it resulted impossible for one part (the South) to borrow the institution that had been developed in the North in conformity to a very different set of values and ideas.

2.8 The influence of values in Institutional Change

Thorstein Veblen is one of the central figures for the development of Original Institutional Economics. Veblen was a sociologist and an economist, and even if his work did not have a great fortune in the academic community until after his death, his contribution to the fields was significant. Veblen developed a critical approach to Economics as he cared to broaden the spectrum of the subjects by also investigating the social and cultural reasons behind economic adjustments. With regard to institutional analysis this meant that institutionalists following the ideas of Veblen gave
great importance to the impact that the decision made by society had on the economy. The notion of the influence of sociological aspects in institutional change, although here analysed in the context of OIE, is not distant from some of the ideas brought forward by Professor North, who also suggests that societies, cultures and civilization have different belief systems, which bear a direct influence on the developmental path from Limited Access Society (LAS) to Open Access Society (OAS). As North writes: “Institutions reflect the beliefs of the players or at least of those players able to shape the rules” (North 1996: 3).

The idea that “set of socially prescribed patterns of correlated behaviour” (Bush 1987: 1076) determines the choices that are made by the community is highly relevant to our proposition that economic imbalances in the institutional framework between the North and the South of Italy are too a consequence of different historical backgrounds, societal values and informal behaviours. In this context values become crucial as they “function as the standards of judgment by which behavior is correlated”. (Bush 1987: 1078). As argued by our thesis, there exists a clear divergence between the values shared by a society in the North and in the South of the Peninsula. Hence behaviours are judged differently under different social norms. As exemplified by Bush: “a given pair of behaviors or activities can be found in a number of different social contexts, but their relationship to one other will change depending on the value system under which they are correlated” (Bush 1987: 1078).

2.8.1 Ceremonial and Instrumental Values

The discussion on values would deserve a much broader space than this study can offer. We will however attempt to offer a short introduction to the concept of “values” based on the effect that they have on patterns of behaviour.

25 North (2007: 6-21) argued two types of societal order exist: Open Access Society (to which we will refer as OAS), and Limited Access Society (to which we will refer as LAS). North suggests that OAS is characterized by open markets, completion, democracy, free access to the market and limitation of violence. Conversely in LAS the access to the market is less free and the benefits of trade are not share among many, but among the few who detain political and economic power.
If as suggested in Bush the “value system” becomes an essential part of the interpretation process of the society and its institutions, it is also clear that economics has the role to include in its study an understanding of what values are and what they represent. (Bush 1987: 1079) Veblen and Bush divide values in “ceremonial” and “Instrumental”, where each “has its own logic and method of validation” (Bush 1987: 1079).

The concepts of ceremonial and instrumental values are used to explain the nature of institutions as divided in two parts. One part is considered invariable, and one that is seen as constantly changing. Ceremonial values are intended as those of natural origin, and cannot be changed. Veblen and Bush’s idea is that these values emanated from a nature considered unquestionable. Ceremonial values, which as we said are fixed, justify the presence of “ceremonially warranted” (Veblen) “patterns of behavior” (Bush 1987: 1080-82) and define “status, () privileges and master-servant relationships”. (Bush 1987: 1079)

On the other hand, instrumental values have a completely different nature and are considered in constant evolution. This second category correlates behaviours which have the practical function of problem solving. (Bush 1987: 1081) Bush and Veblen present instrumental behaviour as connected to problem solving and technology, hence varying depending on the technological advancements.

Bush suggests that “ceremonial and instrumental behavior” can be combined but that there is a “phenomenon of ceremonial dominance” (Bush 1987: 1085) because of which ceremonial values are considered more important and hence supersede lower rank instrumental behaviour. These ideas, that a ceremonial superiority exists and that innovation and technology are strictly connected with “problem solving activities” (Bush 1987: 1087) are then used at the level of institutional change theory, to suggest that innovation, and hence change, can only happen, and be accepted, if it occurs within the sphere of what is ceremonially accepted. In other words OIE theory says that institutional change can successfully happen and be accepted solely where the instrumental part does not collide with the ceremonial belief of a society. (Bush 1987: 1092-97)
We suggest that in the case of the Italian *Mezzogiorno*, in particular when the Italian state was created in 1861, the institutional structure was designed without taking into account the different value framework and without recognizing the existence of superseding ceremonial behaviours that were embedded in the culture of the South of Italy. Therefore we also advance a conjecture, based on which, the different operational efficiency of identical institutions in the North and South of Italy should be attributed to the lack of understanding, by the institutional architecture designers, of the prevailing ceremonial values that characterized the Southern regions.

2.9 Societal development and economic development

To exemplify the meaning given in this study on the concept of development, we take advantage of the definition given by Cypher and Dietz. The authors write that the process of “development is about realizing very fundamental human values and about finding the means to extend the fruits of these values to the greatest majority of the world population.” (Cypher & Dietz 2004: 10)

The idea suggested above is that development is not only about economic indicators but it includes an ethical sphere, which is geared towards attaining virtuous results for society as a whole. As development progresses a society should work towards providing important benefits for the vast majority of the people. These benefits are essential for the development of a society. Everybody should be able to work and support his household while satisfying the basic needs of food and shelter. Cypher and Dietz produce a catalogue of benefits that should be offered to the broader public such as

- Quality education
- Good level health care
- Pensions for the ageing workforce
- Democracy
- Ability to freely take part in political life
- Equal application of the law to everybody without discrimination
- Personal dignity (Cypher & Dietz 2004: 10)
The benefits proposed by Cypher and Dietz are constructed within a framework characterized by specific values. The values of course have a direct effect on determining what benefits are considered morally necessary and ultimately, to be able to afford the guarantee of these benefits, economic development becomes needed by any State.

This thesis supports the idea that offering the benefits proposed by Cypher and Dietz is necessary for any State that wants to progress.

Adelman and Morris described economic development as “the process of institutional transformation by which structural change is achieved and gains and losses are distributed”. (Adelman & Morris cited in Prados de la Escosura 2005: 3) On the same subject Amsden wrote that “economic development is a process of moving from a set of assets based on primary products, exploited by unskilled labour, to a set of assets based on knowledge, exploited by skilled labour” (Amsden 2001: 2). Cypher and Dietz argue that nations that can be considered “developed by any standards” attained their status thought a long period of time, during which their society, beliefs, cultures and institutions had the chance to evolve gradually. Hence, the less developed nations which have had far less time to dwell with the issue of societal evolution will need sufficient time to assimilate and learn the skills necessary for economic development. In this regard it is particularly relevant the model developed by Gerschenkron (1962). As mentioned in this study, Gerschenkron theorized that some states, which develop at a later time, have a tactical advantage because they are able to use, all at once and at a fraction of the price, the technology and the tools that were developed by other states, which developed in a earlier phase. For Gerschenkron the possibility for less advanced states to gain momentum in their development by using techniques developed by others is real. However, the author also intended his model as a “latent possibility” (Cypher & Dietz 2004: 26) whose fulfilment is dependent upon the ability of the single states to capitalize of on a dormant chance for development.

Following North’s theory that associates economic development to societal development, Cypher and Dietz identify certain conditions that must be achieved to foster economic development. These conditions include the “rise of industrialization, a
decrease in the role of agriculture, changing trade patterns, increased application of human capital and knowledge to production, undertaking essential institutional change”. (Cypher & Dietz 2004: 18)

In the Cypher & Dietz model the role of industrialization and agriculture are interdependent. The introduction of machinery and technologies determines new employment possibilities in sectors that before were non-existent or less advanced and produces an increase in productivity. These changes in turn cause a shift in the workforce form agriculture (which is considered a low productivity jobs) to manufacturing (higher productivity profession). The shrinking of agriculture and the growth of manufacturing cause a change in trade patterns and export begins to rely more on manufactured products and services. Cypher & Dietz propose that for these changes to be sustainable, a society must find a way to protect and improve its know-how, which is done thought education and a continuous learning. (Cypher and Dietz 2004: 17-20)

Finally Cypher & Dietz write that “economic growth and development require fundamental institutional change” (Cypher & Dietz 2004: 19). A comprehensive change of the dynamics of institutions with emphasis on the protection of property rights, the application of the rule of law and the reduction of transaction costs, becomes then necessary. (Cypher & Dietz 2004: 19).

2.10 Institutions and society

We argue that examining North’s work on Institutional Economics is important for comprehending how institutions are created, function and change.26

26 In 1993 North received the Nobel Prize in Economic Sciences. As described by the Nobel Committee,” North and Robert Fogel were awarded the prize jointly "for having renewed research in economic history by applying economic theory and quantitative methods in order to explain economic and institutional change." (Jörberg, L., 1993 Nobel award ceremony speech)
North’s work illustrates how a society organization can evolve from a limited access type of society, to an open access society. In limited access societies, it is common that a small group retains an advantageous position to seek personal gain, whereas in the open access system the risks and the rewards inherent to business are divided among many. In his work North points out there three main areas that need particular attention to achieve sustainable development and growth and to progress from a limited access society (LAS) to an open access society (OAS).\(^{27}\) North indicates that a working judicial system, applying the rule of law, lowering transaction costs and protecting property rights are all preconditions for a nation to emerge from its natural, immature state. (North, D.C., 2008)

There are three social orders that are recognized in North’s approach:

- Primitive social order
- Limited Access Society
- Social order as Open Access Society

North argues that when people of different social and economic standing come together, and in the continuous threat of violence, they arrange themselves so that economic elites support political elites. As a result the economic and political leaders benefit from this mutual assistance and can gain monopoly of important assets and resources. (North, D.C., 2008) “In limited access orders the political system manipulates the economy to create rents as a means of solving the problem of violence. Acknowledging this direct link between the creation of rents and maintenance of order enables us to integrate economic and political theory in a new way”. (North et al 2007: 3)

As violence can threaten the sustenance of those who have gained special advantages, the ones that are then in a dominant position share a collective concern to stop violence. They often join forces to maintain the advantages attained and continue to extract value through their position of dominance. (North, D.C., 2008)

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While personal exchange is already a central component of LAS, open access society’s defining note is competition. In LAS, personal exchange sees privileged minorities use their superior ground to obtain better economic gains. However, as society shifts towards OA, these benefits tend to become less significant and the profits of exchange are shared among many more participants. In fact it is a requirement of OAS that all its members partake actively in the economic environment. Together with the shift from LAS to OAS it is associated also a change in the level of per capita income. North indicates that typically income per capita is below ten thousand US dollars in LAS while it ranges between twenty and forty thousands US dollars in OAS, making the latter type of organization preferable. North point out also that OAS tends to grow steadily, while LAS can grow, even quickly, but it will be more difficult to sustain steady growth. For North the key to the growth differential can be found in the complexity of interactions and deals, which increase with the increase of trust among the market participants. (North, D.C., 2008)

Although development as described in North’s framework seems a rather straightforward process, not all nations achieve it. Why are then some countries are rich and some are poor? North suggests that productivity is the key element that separates development performances, and that institutions must support it and increase sources of growth through incentives. (North 2001:319). In North’s words “what makes a country productive is that output per unit of input (...) keeps increasing. Achieving productivity growth is easy.” North here depicts the process of development as a simple cause-effect event where productivity is the key element of the development equation. Although, if we know that productivity is the one factor that can determine the success of a nation, why does poverty still exist? North points out that the size of the investments alone cannot produce the expected outcome. (North, D.C., 2008) If economic growth has scarcely been stimulated, the lack of results can be attributed to a lack proper understanding of “beliefs, time, culture and institutions”, without which it will not be possible to generate sustainable development. (North, D.C., 2008)

Nonetheless belief systems differ from one society to another. Our belief system affects the way we see and comprehend the world around us. Hence what we believe in, influences our perspective. In turn, the beliefs people have are the result of their
lives, and experiences certainly differ, sometimes quite radically, from one civilization to another. We are then in a situation in which both our beliefs and our perspective are in continuous evolution. (North, D.C., 2008) According to North discourse time is also a very relevant variable as the beliefs that are shared in a society depend also on the history that the civilization has had.

North seems to suggest that all the elements that determine the way society works are a product of their time. In this framework he described culture as a “set of beliefs and institutions inherited from the past that shape the way you see the present and how you shape the future”, and institutions as “the way we structure human interaction” (North, D.C., 2008) In North’s theory institutions function based on both a causal system of interactions and official rules (such as the Law), which have a consequences in “reducing the cost of transaction in human activity” (North, D.C., 2008). In North’s perspective institutions are influenced through the three key elements:

- Formal rules
- Informal rules
- Enforcement

Formal and informal rules represent the essence of institutions. Nonetheless without enforcement everyone would be able to set their own rules. In such context it would be impossible to use a predictable behavioural pattern to control social interaction as in an environment regulated by approved, and commonly shared behaviours. In North’s model, formal and informal rules, together with their enforcement, become a major determinants of institutions, and in turn institutions establish the way interaction occurs. Furthermore, following North’s idea that institutions are the most important element to really see how a society works (North, D. C., 2008), as they determine behaviour, we can hence infer that to improve collaboration and behaviour “we need to change institutions and incentive systems”. (North, D. C., 2008)

North specifies that the natural state of humanity is characterized by violence. In his words “humans are like chimpanzees” (North, D. C., 2008), but at the same time violence must be prevented and controlled as it represents an event transgressing the formal and informal norms of behaviour that constitute the foundation of our societal
institutions. The enforcement of rules is integrant part of a nation’s institutions and it is indispensable that people are put in the condition to interact in a violence free environment. Working together in an atmosphere of respect of the rules and where positive interacting patterns can be predicted is paramount. (North, D. C., 2008)

2.10.1 From Limited Access Society Open Access Society

As previously noted, North imagines that obtaining stability and order is absolutely crucial for a framework that can boost economic progress. However, as every civilization has its own peculiarities, North suggests that to really find what is the right developmental path for a given society we need to study that specific civilization and ultimately understand its belief system. (North, D. C., 2008)

The shift from Limited Access Society (LAS) to Open Access Society (OAS) presents challenges especially with concern to societal reorganization and the shift of power between groups and individuals. As noted previously the two types of societies function very differently and in order to transition from LAS to OAS the whole societal dynamics and balance of power must be changed. To allow the transition also the cost of doing business must be lowered to permit better profitability of exchanges. In addition, there need to be a constant support for “the growth of trust and cooperation which are the complements to the rule of Law”. However lowering the cost of doing business can be a long process and North considers it feasible only after the establishment of “norms of cooperative behaviour” that facilitate the exchanges and the cooperation in a society. (North, D. C., 2008)

We now have seen that in North’s model there are three elements that determine the evolution from LAS to OAS. We have determined that in limited-access the goal of the elites is to obtain special benefits, which are precluded to the rest of society. However, North argues that there is a point in time when it becomes in the elites own self-interest to widen access to business and trade, as this will aid the elites in ultimately to obtain more economic gains, as the economy gets bigger. In fact an expansion of economic activity with more actors involved in the exchanges expands the pool from which the elites extract value. (North, D. C., 2008)
In second place, and to allow the transition to OAS, there needs to be a continuous institutional development from organizations which are entirely made by governments to institutes, sometimes also partially privately controlled, that are more creative and are able to dynamically change the way they operate. By shifting from fully governmental institutions to organizations that encompass also the private sector, institutions can take advantage of opportunities that arise in the market. Their position of strength is the result of the combination between state-run institutional experience and the commercial freedom that private organizations possess. (North, D. C., 2008)

The third adjustment that is required to facilitate the passage to OAS is a change in dynamics of power between the elites and the military. In LAS the two parties collaborate to block violence both domestically and from outside, while in OAS the military follow a political rule. Elites cannot anymore be in charge and model the rules through the use of military means to protect their own self-interest. In fact North argues that to be an open access society it must not be possible for the elites to alter the rules unilaterally. (North, D. C., 2008) In this scheme of things an efficient and effective judicial system, the rule of law and its enforcement become ultimately a vital asset for any AOS. However, North suggests that it is also important that societies establish “informal norms of behaviour” (North, D. C., 2008) that can make exchanges and collaborations easier. (North, D. C., 2008)

While the approach proposed by North aims at explaining societal evolution throughout history, the Nobel Prize winner’s theory presents elements of contrast with the reality that can be observed in “open” societal settings. North in fact believes that only limited access societies are characterized by elites which collude to extract value from society. North also suggests that open access societies are instead arranged in a democratic way which allow the value to be shared among many participants. (North 2006: 2) North’s considerations are certainly valid for the purpose of creating a theoretical model, which indicates the importance, for societal development, of elements such as the judicial system and the application of the rule of law. (North et al 2007: 4) However it is of concern that North’s model fails to appreciate and address the fact that elites, both cultural and economical, do exert a strong control even in open access societies. Symptomatic of this situation is the fact that the value created by trade and
exchanges is not shared equally, and in fact there are growing discrepancies in income distribution even in open access societies (for example, see Rajan 2011).

North’s model of societal evolution correctly suggests that a critical role in development is played by elites, who allow the increase in the number of participants to economic life, as this will also increase the amount of “rents” that they will obtain. (North et al 2007: 21) North seems to suggest that this selfish attitude of the elites promotes change, but it is also clear that this attitude encourages the subservient relationship between the elites and the less powerful. Therefore, while in open access society there is an improvement, in absolute terms, for those who do not belong to the elites, the extension of rights to a wider public also improves the position of the leaders. The elites in fact maintain a controlling role, and especially reinforce the balance of power in their favour, as the newly formed middle class becomes a source of new values and simultaneously an additional guarantee to upholding the status quo.

2.11 Methodological Individualism (MI) and Methodological Holism (MH)

As aforementioned, this study offers a perspective on the theoretical approach developed by two different schools of thought: one that was developed in the context of neoclassical economics and uses methodological individualism, and a second one, which is ideologically closer to the tradition of Original Institutional Economics (OIE) or American institutionalism and, in its analysis of economic theory apply methodological holism. As this paper attempts to summarize the two academic approaches, we will also try to illustrate the differences that we find most relevant. A definition of MI and MH given by Samuels recites:

By methodological individualism I mean the view which holds that meaningful social science knowledge is best or more appropriately derived through the study of individuals; and by methodological collectivism I mean the view which holds that meaningful social science knowledge is best or more appropriately derived through the study of group organizations, forces, processes and/or problems. (Samuels 1972: 249)
This thesis concisely examines the differences between MH and MI. Following William Parker, we argue that both approaches are valuable and we support the idea that the choice to use MI or MH depends on factors that are sometimes external to the pure applicability of economic theory and analysis. (Parker 2006: 1).

Parker suggests that following Pareto’s theory of derivations, economists justify the use of a methodological approach with a theoretical explanation, which however is often only “post hoc rationalization” (Parker 2006: 1-2).

Attempting to assess the superiority of MH over MI or vice versa is not a prerogative of this study. Conversely we find both approaches essential and constructive for economic analysis. The fact that Parker suggests that one approach is preferred to the other due to exogenous elements (Parker 2006) corroborates the idea that of considering both theoretical standpoint as perfectly valid.

Furthermore, this thesis supports the idea that it exists a correlation between the historical circumstances and the institutional setting developed by a nation. With this in mind, we find Parkers’ idea that the theoretical method used in economic analysis is influenced by “fluctuations of unconscious social mood” (Parker 2006: 7) particularly fitting for the purpose of contextualization, which Parker pursues in a digression on the use of MH and MI in the course of economic history.

To analyse the approach of different school of thought we begin with Eli Heckscher’s description of Mercantilist thinking. (Heckscher cited in Parker 2006: 4) Heckscher theorized that economies must be organized around the principle that poorer states must “sell cheap and buy dear” because of the preoccupation for the scarcity of monetary resource. Parker argues that Mercantilists used methodological holism because their theories were focused on investigating the competitive position of the

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28 In his “Trattato di Sociologia Generale” (Treatise on General Sociology), Pareto presents his theory of Residues and Derivations. Pareto argues that people actions are based on feelings with a non-logical base, which Pareto calls residues. (He, Pareto) suggested that people formulate explanations for their decision only afterwards (derivations). This study will not investigate further Pareto’s studies. Nonetheless his sociological work could deserve a much broader discussion especially considering that Mussolini used Pareto’s theories to justify his repressive government policies. (Parker 2006: 2-3)
states and not on the economic relations between persons. (Parker 2006: 4) Conversely he suggests that classical economics has methodological individualism at its core because economic theory is concentrated on the issue of the organization of labour. (Parker 2006)

Parker also analyses the work of Adam Smith. He (Parker) points out how “MI clearly characterizes most of his [Smith’s] work, even though the MH of his famous “invisible hand” is briefly evident.” (Parker 2006: 4) Conversely Original Institutional Economics used Methodological Holism in its approach even though some theorists attempted to use also Methodological Individualism (Parker 2006: 5). Parker also indicates that Neoclassicists used Methodological individualism because of the prominence of the role of individual actions. On this account Parker wrote that:

The neoclassicists have been especially aggressive in claiming that the MI approach is the essence of science.” “Not only do the neoclassicists see MI as the essence of science on theoretical grounds (due to their model of man and assumptions about the nature of causality) – a commitment to MI is even enforced in the economics profession due to neoclassicism’s domination of the profession in many areas. (Parker 2006: 6)

The current of New Institutional Economics has in more recent times approached the issues of bringing methodological individualism and holism together (Parker 2006: 8). Hodgson highlights the fact that there has been an effort in the current of Original Institutional Economics, which “focuses primarily on the emergence of institutions out of the interactions of given individuals”, (Hodgson cited in Parker 2006: 8) to combine the two theoretical frameworks:

The thrust of the “old” institutionalist approach is to see behavioral habit and institutional structure as mutually entwined and mutually reinforcing: both aspects are relevant to the full picture.... A dual stress on both agency and structure is required, redolent of similar arguments in sociology and philosophy.... Both individuals and institutions are mutually constitutive of each other. Institutions mold, and are molded by, human action. (Hodgson cited in Parker 2006: 7-8)
2.12 A “hierarchy of needs” for society

Abraham Maslow, son of Russian-Jewish immigrants, grew up in Brooklyn, New York, to become a psychologist who vastly influenced management theory for over 70 years. In 1943 he published a paper entitled "A Theory of Human Motivation" in which he theorized the existence of a “hierarchy of needs”. Maslow’s theory was based on the assumption that there are certain needs and priorities that people need to fulfil in order to achieve their full potential. (Maslow 1943)

Maslow’s theory has found vast application in management and motivation theory and has influenced the business world like few other management thinkers. In our research we will discuss the possibility of applying Maslow’s ideas to society and the state rather than to individuals.

2.12.1 Maslow hierarchy of needs

Maslow’s theory suggested that people are motivated to fulfil their needs, which he categorized into five different groups, from basic biological needs, to intellectual and self-realization needs. (Maslow 1943: 370-396) Maslow categorization of need needs included:

- Physiological needs
- Security needs
- Belonging needs
- Esteems needs
- Self-actualization needs

Maslow’s hierarchy of needs is often represented graphically as a pyramid (see fig. 8) to emphasize the degree of importance given to the realization of certain needs. The order given in the pyramid indicates the priority that they have in the self-actualization process.

30 (Maslow 1943: 370-396)
process, while the graphic size of each need category suggest that higher the degree of the need, the smaller the amount of people that manages to fulfil it. Maslow argued that the number of people who manage to reach the last stage of personal achievement is relatively small and he often referred to the difficulty of finding examples and subjects of study who could be considered self-actualizers. (Boeree 2006)

Fig. 8 Maslow’s hierarchy of needs\textsuperscript{31}

The Physiological needs are those that belong to the sphere of natural necessities such as sleep, food and shelter. Maslow argues that the physiological aspect must be satisfied before an individual can progress in the path to self-actualization. (Maslow 1943: 370-396)

\begin{itemize}
  \item SELF-ACTUALIZATION
  \item Pursue Inner Talent
  \item Creativity
  \item Fulfillment
  \item SELF-ESTEEM
  \item Achievement
  \item Mastery
  \item Recognition
  \item Respect
  \item BELONGING - LOVE
  \item Friends
  \item Family
  \item Spouse
  \item Lover
  \item SAFETY
  \item Security
  \item Stability
  \item Freedom from Fear
  \item PHYSIOLOGICAL
  \item Food
  \item Water
  \item Shelter
  \item Warmth
\end{itemize}

Security needs are concerned with stability and the need to feel that one’s existence is secured. An example is the need of being free from concerns regarding the security of one’s job and prospects of having enough economic means to support one’s existence. Maslow indicates that the needs of belonging find their realization in the relationship that we establish with people that are close to us. He also suggests that everyone needs love and caring and that people want to feel accepted and to belong to a group. The need called "self-esteem" regards the necessity of being satisfied with who you are, and being recognized by others for your own personal achievements. Finally self-actualization, located at top of the pyramid, indicated the pinnacle of human realization, which can be identified with moments of special significance during which the self-actualizer reaches a superior level of self-fulfilment. (Maslow 1943: 370-396)

Maslow wrote: "Self-actualizing people have a deeper and more profound personal relations” (Maslow 1973: 191) He added that while average people "often have not the slightest idea of what they are, of what they want, of what their own opinions are, self-actualizing individuals have superior awareness of their own impulses, desires, opinions, and subjective reactions in general.” (Maslow cited in Stein, S. J. & Book, H. E, 2010: 76)

Maslow’s idea is that the needs at the base of the pyramid are the first factors that function as motivators. Once the desires at one level of the pyramid are satisfied, the motivational function shifts to the next level until all the needs are gratified and self-actualization become the final goal.

Maslow’s theory is built around the paradigm of a man who is goal oriented and acts to pursue his objectives. This approach was distant from the dominant Freudian school of thought, which gave far greater importance to the obscure aspects of the mind, such as the unconscious and human instinct. The hierarchy of needs has had a great influence in management theory and sociology but regardless of its application and widely spread use, Wahba, Bridwell and Hofstede advanced some critical considerations suggesting that priorities and needs do change in different types of society, because the value structure is different in different societies. (Wahba & Bridwell 1976: 212-240; Hofstede 1984: 389-398)
Even though Maslow’s theory was based on the analysis of personalities with immense status, such as Eleanor Roosevelt and Albert Einstein, Maslow suggested that self-actualization is not about the absolute performance, but it concerns the particular objectives that everyone chooses. As Maslow put it: "What a man can be, he must be." (Maslow 1954: 92)

Maslow was convinced that personal realization is based on the realization of objectives that are decided by each individual. However we agree with Hofstede who suggests that once the reality of different value systems is taken into consideration we can imagine how the objectives set for self-actualization will concretely depend on the cultural and societal setting in which people live. (Hofstede 1984: 389-398)

2.12.2 Maslow’s hierarchy applied to society

Having discussed the value of Maslow’s ideas, we will now attempt to construct a similar approach to discuss the societal necessities that must be fulfilled before a civilization can become a developed society in the sense conveyed by Cypher & Dietz.\(^{32}\)

The framework developed by Maslow has the potential of being an important instrument for government and policy makers whose goal is the improvement of the institutions. In fact if one agrees with what Plato (Plato 360 B.C.: Book IV) suggests in one of the dialogues of “the Republic”, the purpose of the State should be to achieve the greater good for all the groups of society, and not to obtain advantages for one specific faction. We of course do not intend to suggest that everybody has uniform needs, but that there are needs that are commonly shared and that the State should engineer institutions able to regulate relationships equitably and allow members of a society to progress towards self-fulfilment. Furthermore as Maslow described self-actualizers as people who offered exceptionally important contributions to society and its progress, we argue that a nexus between self-fulfilment and economic growth exists.

\(^{32}\) Cypher & Dietz 2004: 10 - see also chapter 2.9 above
Maslow’s hierarchy of needs essentially tells us what it is that people need to be happy. Likewise societies, and more precisely states, have a great deal of responsibility in creating the ideal conditions for individuals to reach their potential and fulfil their desires. While the hierarchy of needs, as noted by Hofstede (Hofstede 1984: 389-398), is perhaps guilty of not being culturally adaptable to different settings with different values, this thesis argues that it is important for every society to be goal oriented. Those objectives should be based on the culture, history and the values that a civilization considers of primary importance. Once states develop a deep understanding of what society needs, it is much simpler to build institutions whose goals and values are closely matched with the objectives that society wants to attain.
3  The role of the government

3.1 Institutional absence and the Mafia phenomenon

Pinotti suggests that the foundation of the most dominant criminal groups in Italy could be traced to a time before the national unification in 1861. (Pinotti 2012: 9)

The relevance of the matter regarding the connection between Institutions, criminal organizations and economic development can be inferred from the amount of papers and books, conferences and debates on the role and influence that each of those elements has on the other. Pinotti writes about the economic cost of organized crime and “examine[s] the post-war economic development of two regions in southern Italy exposed to mafia activity after the 1970s”. Pinotti applies “synthetic control methods to estimate their counterfactual economic performance in the absence of organized crime.” (Pinotti 2012: 1). In his effort to shed some light on a problem with a very complex solution, Pinotti attempts to empirically figure out what are the economic costs of criminal organizations in the South of Italy. Pinotti wishes to demonstrate that the regions where the Mafia phenomenon is greater have a lower growth path. (Pinotti 2012: 1)

Following the results of his investigation (data shown in figure 9 below), Pinotti theorizes that “...such costs [of criminal organization] are potentially very large; indeed, the five Italian regions where the presence of criminal organizations is more widespread are also the poorest of the country. However, the (...) relationship likely reflects causality going in both directions. In particular, the level of development could itself be an important factor behind the rise of criminal organizations.” (Pinotti 2012: 4)

As Pinotti reasons: “organized crime is commonly perceived as the main obstacle to the economic development of several regions around the world”. (Pinotti 2012: 1).
Following the theoretical approach developed by North regarding the importance of the application of the rule of Law, and of a functioning judicial system (North 1993: 7), we suggest that inefficiencies in the latter, paired with a blunt enforcement of the rule of Law has been one of the most important, if not crucial, factors in inhibiting the economic development of the whole Southern Italian region. This approach seems to be supported by the idea advanced by Pinotti that criminal activity is linked to poorer economic performance. (Pinotti 2012)

This study supports the notion that the absence of a strong institutional foothold in the Mezzogiorno has provided space for the growth and the development of several international criminal organizations, which have extracted enormous value from the Italian Mezzogiorno, depriving it of the chance of economic development. Nonetheless it is also important to note that the birth of such criminal organizations has a strong connection with the activity of the State. The confusion generated by the unification, generated social unrest in the Southern regions, which were annexed to Italy. As a consequence of the profound changes in societal organization people developed a need for an unofficial control structure, which contributed to the rising weight of the Mafia in
Sicily and the Camorra in Campania (Gambetta, 1993 and Bandiera, 2003 cited in Pinotti 2012: 9-12).

Fig. 10 Map shows the presence of criminal organizations in Italian regions based on the number of case of Article 416-bis of the penal code used for crime associated with Mafia
Source: Pinotti 2012

This thesis proposes that a well-structured judicial system is a necessary for state’s development. Former President of the USA, George Washington considered the administration of Justice crucial and about its importance wrote that:

[I am] Impressed with the conviction that the due administration of justice is the firmest pillar of good Government, I have considered the first arrangement of the Judicial department as essential to the happiness of our Country, and to the stability of its political system; hence the selection of the fittest characters to expound the law, and dispense
justice, has been an invariable object of my anxious concern. (George Washington, 1789. [online] State Bar of Michigan Blog)

Schelling highlights the fact that criminal organizations constantly use violence to maintain their dominance in the illicit activities and “to extract rents from the other agents in the economy”. (Schelling cited in Toniolo 2012: 8) Gambetta and Skaperdas support the thesis that see the Sicilian Mafia as a result of the lack of property rights defence. (Gambetta and Skaperdas cited in Pinotti 2012: 8) In addition Bandiera supports this argument with his findings on “land fragmentation and mafia activity in Sicily at the end of the XIX century”. (Bandiera cited in Pinotti 2012: 8)

After a comparison between patterns described in Schelling, Gambetta and Skaperdas and the theoretical framework developed by North (2009: 4-13) on the characteristics of limited access and open access societies, we can infer that the South of Italy does not possess the characteristics of OAS and that there exists a relationship between lack of development and the expansion of criminal organizations.

3.2 “The entrepreneurial State”

In this section of our study we examine the role of the State in Economic development and we discuss the thesis brought forward by Eisinger and Mazzuccato on the entrepreneurialism of the state.

Eisinger (Eisinger 1988) and Mazzuccato (Mazzuccato 2010) emphasize the role of government in helping the growth of certain industrial sectors, which are considered too risky or too capital intensive by private investors. Indeed both authors recognize that the State has had and perhaps should have again a leading role in identifying and developing strategically important industrial and business projects. Eisinger suggests that eventually private producers will exploit the business opportunities arising from the state’s initial investments, and Mazzuccato seems to suggest that the State, by

33 http://sbmblog.typepad.com/sbm-blog/2011/02/most-famous-george-washington-misquote.html#sthash.ocfADeIw.dpuf
maintaining a partial ownership in the industries it creates and develops, can also obtain benefits from the success of its investment.

The role of the State in is often relegated to the one of facilitator rather than actor. In the economic and political discourse, the qualities of dynamism and creativity seem to be attributes only for private entrepreneurs and private firms, while the State is often seen as a constraint of economic activity and a bureaucratic structure with no entrepreneurial ability. The Economist argues that “government have always been lousy at picking winners, and they are likely to become more so, as legions of entrepreneurs and tinkerers swap design online, turn them into products at home and market them globally from a garage.” (Economist 2012)

The vision of a State able to drive economic performance only by creating the right preconditions for private entrepreneurs, derives from a concept of economic development in which the private businesses and firms generate profits and drive growth, and where the rules set by States and governments are often regarded as mere impediments to economic expansion. *Laissez-faire* economics, for example, call for deregulation to promote growth and believes that when the State has a smaller role, there are improved possibilities for private firms and the economy to produce positive results. (Hill 1964: 393-396)

Eisinger studied the development of industrial strategy in the United States of America. He also wrote about the increase of industrial and business projects brought forward by local governments and the state to create a stimulus for the economy and support the development programs. (Eisinger 1988)

Eisinger discusses the nature of “supply-side” policies and “demand-side” policies and highlights the difference between the two approaches. Supply side policies as based predominantly on subsidies and incentives designed by the government to lessen the cost of doing business in a specific place. Supply side initiatives are hence aimed at attracting business to one location rather than another, by making a geographical area more economically efficient to run a business with less cost. (Eisinger 1988: 10-12)
Conversely, demand-side policies aim at developing a particular sector or industry to produce value-added products. The goal of demand-side initiatives is to support local business while promoting the demand for goods produced locally. Supply-side policies can be implemented by acting on taxation, reducing the cost of labour, or though specific regulatory procedures. Demand-side policy is based on supporting the establishment of small businesses, the creation of business incubators, large private investors, and continuous support to research and development. (Eisinger 1988: 12) Demand-side policies are those that see the State having a more active role by investing in the long-term establishment of certain industrial sectors. In fact, it was Eisinger who named demand-side policies “entrepreneurial”. (Eisinger cited in Gittell et al. in Stabeler et al. 1996: 66)

Reese pointed out that following Eisinger’s analysis we can conclude that demand-side policies are more desirable as they contribute to new investments and to the development of firms and businesses that are supported by the spurring of ground breaking and highly technical improvements. Ultimately Reese suggests that demand-side policies “create a positive sum game” (Reese 2013: 29) Conversely supply-side policies have some shortcomings as they focus on concentrating investment in one geographical areas, moving economic activity from a place to another without actually building stable and durable industrial foundations. (Eisinger cited in Reese 2013: 29)

Following the tradition of Eisinger, Mazzuccato theorizes that “rather than analysing the State’s active role through its corrections of market failures”(...)“it is necessary to build a theory of the State’s role in shaping and creating markets” (Mazzucato 2014: 8). Mazzuccato brings forward the idea that the State could and should have a leading role in developing certain strategically important industrial sectors. (Mazzuccato 2014) In a time where the EU policies are geared towards cutting public expenditure Mazzuccato proposes that in Italy, rather than total expenditure, the issue that needs more attention is the way the funds are spent. Essentially Mazzuccato argues that Italy should increase spending in sectors such as research and development and high level education and that the low level of capital allocated for these sectors is part of the reason why Italy suffer from a chronically low GDP growth. (Mazzuccato 2014: 17)
3.3 The contribute of IRI and *Cassa del Mezzogiorno*

This paper agrees with the ideas expressed by Eisinger and Mazzuccato on the necessary role of the State in developing strategically important industrial sector. For this reason, in this chapter we concisely discuss the role that the Institute for Industrial Reconstruction, called IRI\(^{34}\), has had in in Italy and particularly in the *Mezzogiorno*.

The Institute for the Industrial Reconstruction and the *Cassa del Mezzogiorno* are two significant examples of how the Italian government promoted growth and implemented industrial policy during part of the 20\(^{th}\) century.

The Institute for Industrial Reconstruction was founded by the fascist administration in the 1933 and it worked as a holding, retaining ownership and control of most of the industrial structure of the nation. IRI had an important role in the development of the Italian economy and contributed in great measure to the acceleration of growth and development (Bianchi cited in Bianchi & Labory 2011: 443). Also Pastorelli considers the role of Institute for Industrial reconstruction as crucial and suggests that the undertakings of the firms operating under the IRI umbrella helped to improve the efficiency of the manufacturing sector and contributed to the transformation and evolution of vital sectors for the national industrial strategy. (Pastorelli 2006: 1)

The *Cassa del Mezzogiorno* was a government body instituted in 1950 for the purpose of tackling the chronic issues of the Southern economies. The main goals of the *Cassa del Mezzogiorno* were in fact the improvement of services and infrastructures in the South, while promoting entrepreneurship and the shift of investments from the North to the South of the country. (Castronovo 2007: 295)

After the Second World War Italy went through a strong period of growth. Pastorelli suggests that as a consequence of the economic development on the nation, the role of state entrepreneurialism changed radically and evolved from state rescue to active and permanent participation in the economic environment. (Pastorelli 2006: 1)

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\(^{34}\) Original name: *Istituto per la Ricostruzione Industriale*
IRI worked resolutely in important strategic sectors of heavy industry such as energy production, nuclear technology advancements, iron and steel industry, mechanics, electronics and shipbuilding.

While the influence of IRI was certainly significant for the whole nation, it is relevant to stress the fact that already in the 1950s 80% the activities of IRI were concentrated in the North of Italy, heightening the imbalance of industrial power and development existing between the North of Italy and the Mezzogiorno. (Pastorelli 2006: 58) However the resource allocation of the Institute for Industrial Reconstruction changed dramatically thanks to a new piece of legislation promulgated by the government in 1957 which, in an attempt to improve the condition of the Southern regions, imposed to firms partially owned by the state to invest in the South 40% of overall investments and 60% of investments for new initiatives. (Pastorelli 2006: 58)

In the following decade IRI participated in a comprehensive program of investments, particularly in capital intensive and heavy industry. Of particular importance were the creation of the steel and iron conglomerate in Apulia, and the establishment of Alfasud, which became an important branch of the Italian car building industry in Pomigliano D'Arco, in the Naples region.

Investment of such vast dimensions had relevant effects in the development of the geographical areas where industrial activity grew. Cerrito points out how the development of the steel and iron industry in the Taranto district, in Apulia, caused a more rapid development of the area. In fact the rapid acceleration of social and economic indicators such as population growth, number of cars in use, income per capita\(^{35}\) in the Taranto province between 1951 and 1971\(^{36}\), gives us a clear indication of the impact that the steel industry had in the region. (Cerrito 2010: 10)

\(^{35}\) They comparatively at a much higher rate than in the other areas of the Mezzogiorno and higher than Italy as a whole (Cerrito 2010: 10)

4 Findings and conclusion

4.1 Author’s findings and conclusions

Robinson and Acemoglu suggest that “inclusive institutions” are the motor of sustainable economic growth. The authors write that:

Inclusive economic and political institutions do not emerge by themselves. They are often the outcome of significant conflict between elites resisting economic growth and political change and those wishing to limit the economic and political power of existing elites. (2012: 332)

Regardless of the theoretically different approaches between schools of thought that see the role of the government either as a mere catalyst or an entrepreneurial agent of change, this study argues that the role of the State cannot be undervalued. This thesis proposes that both approaches are, to a certain extent, part of the same solution. In fact, in different stages of societal evolution the state can be an enabler of private economic activity and an investor and actor of social and economic change. Our consideration is that the two roles are complementary and that used in harmony they can produce synergic results. To abstract the relationship between a “state as enabler” and an “entrepreneurial state” (Mazzuccato 2014) we borrow the principle behind Maslow’s hierarchy of needs and we apply them to nations and societies. We argue that “self-actualization”, (which in the case of States we will refer as sustainable development and continuous societal improvement), can be achieved only after the basic needs of society are fulfilled. We speculate that society basic needs can be identified with North’s idea of developmental preconditions such as basic institutional organizations that regulate interaction and cooperation, an efficient judicial system and the enforcement or the rule of law. (North 1993: 7)

In conclusion, once the basic societal needs are satisfied, the state’s main responsibility could evolve from creating the environmental conditions for growth and development, to becoming more prominently an investor with a more entrepreneurial attitude. We argue that in the more mature stage of a nation self-actualization process, the state
would not invest to merely generate profit, but to harvest the resources necessary to improve the level of services and social security available for its citizens.

Our study on the Mezzogiorno reveals a country that has a problematic attitude towards change and towards growth. As discussed in our thesis, institutional change is a crucial factor in shifting the balance of power in society; hence it becomes clear that steady growth must be preceded by deep alterations of the status quo and hence of the institutional setting.

Our investigation is intended as a political interrogation, with the intent to uncover how, when, and with what effects government can produce reforms for economic development. With particular reference to the Italian case, we believe that the government should have a much more active role in the development of the country. We support Mazzuccato’s consideration that Italy is in need of better public spending rather than less of it. Our study shows us that there are examples of courageous and strategic investments by the state, with modernization of crucial infrastructure and the installation of important industrial sectors that the Italian government has used to improve the economic state of the country. With specific focus on the Southern region and the Mezzogiorno macro area, the findings of our study indicate the need for a strategic plan of action for industrialization and development similar to the initiatives taken by IRI in the past. Furthermore, this paper suggests that a development plan for the South should be designed taking into account the cultural and historical peculiarities of the region. The South of Italy is still unacceptably affected by the plague of organized crime. Indeed, all the theoretical frameworks analyzed in this paper seem to suggest that there cannot be development unless order is guaranteed and the rule of law applied. Hence it follows naturally that it is our conclusion and recommendation that to achieve economic development in the South of Italy, we must put an end to the phenomenon of Mafia and other criminal organizations.
4.2 The topic significance

Fig. 11: Judges Giovanni Falcone and Paolo Borsellino in a famous image
Source: Varese report

The two men in the picture above are Judge Giovanni Falcone and Judge Paolo Borsellino, and they are my childhood heroes. These two men are an inspiration for many who believe in and work for change. With all its limitations and imperfection, I would like to dedicate this work to the memory of the two men who, for many Italians, were and are the personification of all the values that Institutions should express.

The first time I remember hearing somebody talking about institutions I was 12 years old. I understood very little of what was really happening, but at the same I saw and understood too much for a child that age. Later in life I studied and understood that institutions were an important determinant of my life, that they had the power to build a nation and defend its citizen, and that institutions were the cornerstones of society. Still, on that May afternoon I also understood that institutions were empty, that they were liars; they were false, that they were inept, that they were "buffoni" (buffoons), as some addressed politicians entering the Saint Domenic Basilica. Many statesmen
arriving at the funeral entered the church through the back door to avoid the shouting mob at the church gates. I remember only Marco Pannella, the then leader of Radical party, going through the front doors and facing the insults of the crowd. The name-calling started, the people of Palermo were hurting and wanted to attack the politicians. People around started insulting them, some people spit at them, they were ripping them apart with the violence and hatred that only words shouted with grinding teeth can convey. It was the 25th of May 1992. It was the funeral of Judge and prosecuting magistrate Giovanni Falcone, killed, on the motorway to Palermo, with his wife, Francesca Morvillo and three men of his security detail, Antonio Montinaro, Vito Schifani and Rocco Dicillo

I was with my parents and I remember that they were crying. They were holding my hands as we were trying to enter the church to avoid being squashed by the crowd. My parents were both very religious but this time going to church was more about politics than God, it was about history, civil rights and about honouring men who selflessly donated their lives to help all Sicilians live a better life. It wasn’t the first time I was at a wake, but it was the first time I cried for somebody I had never met. And I felt rage, and hate for the first time perhaps. It was the most significant moment in my adolescent life and it changed me profoundly.

Less than a month following Falcone’s death, after a visit to his mother’s apartment, Judge Paolo Borsellino and five members of his security details, Agostino Catalano, Emanuela Loi, Vincenzo Li Muli, Walter Eddie Cosina e Claudio Traina were killed in a potent car bomb attack that destroyed an entire street of the city centre and permanently scarred the city of Palermo.

This study is rooted in a strong personal belief that institutions are both an agent and a tool of change and that institutions can and must find the authority and power to continually improve the society we live in. Mafia was and still is a horrible product of institutional absence in the Italian Mezzogiorno, but the State can remedy to that absence. As Judge Falcone argued, Mafia can and must be defeated. And it will be defeated. Falcone believed that Mafia was beatable. I believe it too, and I want to live by his words.
Mafia is not at all invincible; (the Mafia) is human fact and as all human fact it has a beginning and it will have an end. Instead, we need to comprehend that (Mafia) is a terribly serious and grave phenomenon and that it is possible to win, not by demanding heroism from defenceless citizens, but by committing in this battle all the best forces of institutions.\textsuperscript{37}

\textsuperscript{37} Own translation. Original text: "La mafia non è affatto invincibile; è un fatto umano e come tutti i fatti umani ha un inizio e avrà anche una fine. Piuttosto, bisogna rendersi conto che è un fenomeno terribilmente serio e molto grave; e che si può vincere non pretendendo l’eroismo da inermi cittadini, ma impegnando in questa battaglia tutte le forze migliori delle istituzioni."
References


North, D. C., 2008. Why Institutions Matter (1-8), *University of Philippines Centennial Lecture series.* [online] (video) Available at: <https://www.youtube.com/watch?v=dKFrjKhwV6A>


Additional Graphs

**Fig. 1:** Boxes with arrows pointing upward indicate MI theorists in times of positive social mood; boxes with arrows pointing upward indicate MH theorists in times of negative social mood.

Source: Parker 2006
Maps

Map of the Italian Peninsula before the Unification (1848)
Source: Toniolo, G., 2013
Present day Italy

Source: Toniolo, G., 2013