THE DEVIL IS IN THE DETAIL:

THE FLEXIBILITY – AUSTERITY RETHORIC AND THE PERMANENT DISASTER OF THE EUROPEAN REGIONAL POLICIES IN SOUTH ITALY ROME, November 2017

DRAFT

Galli Della logia, a columnist for in the Corriere Della Sera made an accurate reflection in last week-end's edition, that "historically, it is in Sicily that the Italian disasters has always been aired before they become a national tragedy".

The recent regional elections indicate that the Democratic Party (PD) is heading towards a melt-down and that Eurosceptic movements (M5S movement, Northern League and the eternal Berlusconi) may soon become the majority. It is, however, even more accurate so if we look to how badly managed European funds are, which are meant to promote the economic development of Sicily and the other regions in the South of Italy. It is in South of Italy that we find the most robust evidence that the devil of Italy's (and Europe's) failures are in the details of investment programs which were born with the grandiose objective to "harness globalisation and leaving no one behind".

Sicily is the forerunner of the failure: it was during the last electoral campaign that Italy's central Audit Court declared that the Region had to return to the European Commission 116 million euro for the simple reason that these European funds granted to the Region in 2007, were unspent after ten years. The failure to invest millions of European funds in a Region whose employment rate of 40% ranks it 276 out of 276 European regions (in the last position we have Calabria and at the third last Campania) seems to be a sort of inexplicable political suicide. It is, in fact, the result of a battle against an inefficient public administration that nobody has ever had the courage to fight in Rome as well as in Brussels and which makes all the rhetoric of the debate of flexibility versus austerity appear empty.

****

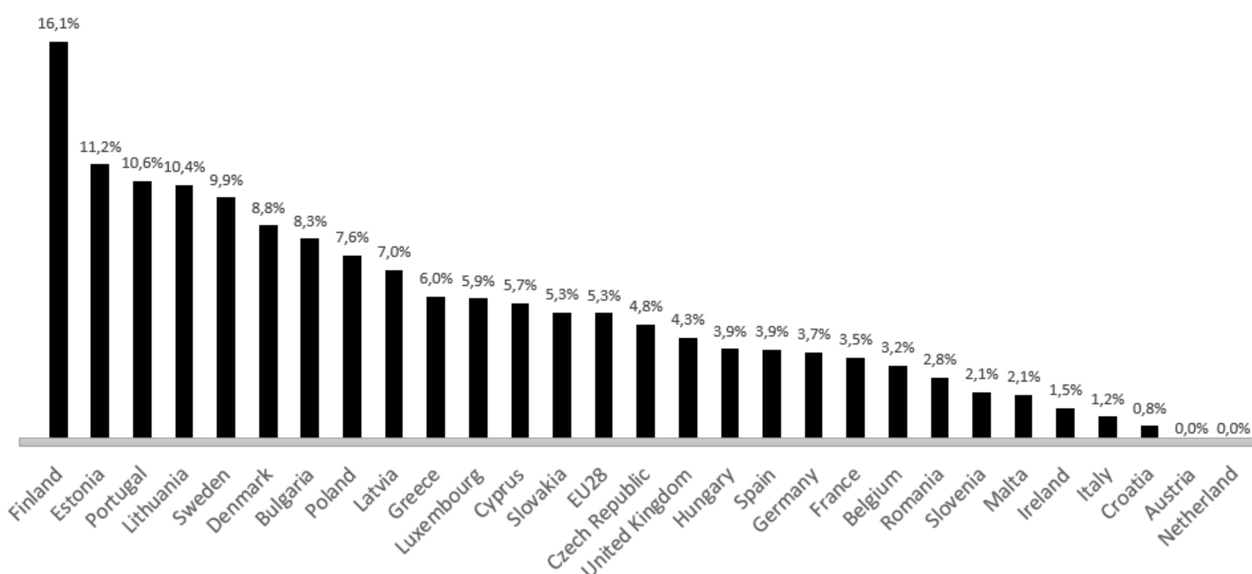
The specific objective of European structural and Investment funds (ESIF) is to reduce disparities amongst EU regions through "place based" development strategies that each of the 276 European Regions and 29 Member States have to design and agree with the Commission. The money goes to both underdeveloped and developed regions (even the London Great Authority gets some structural funds) and yet it is concentrated in the about 50 regions whose GDP per person is less than the 75% of the EU average.

The amount allocated to this policy is 454 billion Euro for the seven years between 2014 and 2020 and the sum is roughly the same as it used to be in the previous seven year budget of the Commission (2007 -2013). 454 billion Euro is almost half of the entire budget of the European Commission (1.087 billion euro). If we add to the picture the money that Member States spend to co finance the ESIF, we reach the total sum of 638 billion Euro (almost 1300 euro per citizen in seven years) which the Union dedicates to the policy, and which is supposed to maintain cohesion and prevent the disintegration fuelling populism and anti EU sentiments.

Italy, however, has been the Achilles' heel of the most important political bet that the Commission is placing with its own money (although problems exist also in other parts of the Union).

The picture that anybody can find on home page of the General Directorate for Regional Policy is even brutally clear.

Graph 1. Utilization of European Funds by member state; ERDF; programming period 2014 – 2020; cumulative to October 2017; interim payments



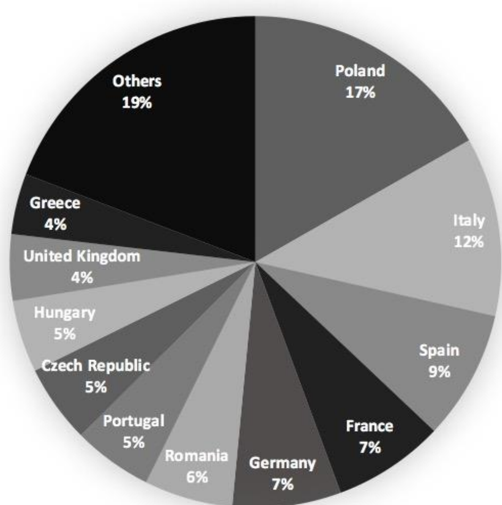
Source: Vision on European Commission data

As per today, according to the European Commission, Italy has been able to spend just about 1% of the 20 billion Euro of the funds (European Regional Development fund, ERDF) that the European Commission had given to Italy out of its own budget and which is supposed to be spent in the 2014 – 2020. When half of the programming period has gone by, 99% percent of the 20 billion euro has still to be spent.
Certainly percentages are low for all Member States and yet out of 28 member states, Italy ranks 25th in terms of capability to spend the money that the Commission provides to develop regions[1]. Only Croatia, Austria and Netherlands are doing worse: however, Croatia has just entered the Union and it has still to learn whereas Italy has been one of the countries that invented regional policies in the eighties; whereas Austria and Netherlands combined get less money than Sicily alone.

[1] The situation is, in fact, even worse than it used to be in the previous (2007 – 2013) budget: the numbers of Italy's budget office shows that less developed regions had spent 8% of the seven years budget when they reached the half point of the seven years programming period.

If we add to 20 Billion Euro of the ERDF, the other funds (the European Social Fund for professional training, the European Agriculture Rural Development Fund, the European Maritime and Fishery Fund and the Youth Employment Initiative) which make the European Structural and Investment Fund, we find that the country gets 43 billion euro of the European Commission's money for 7 years. This becomes 73 billion if we consider 20 more billion euro of national funds with which the government tops up the development programs and of this money two third go to the five less developed Italy's regions – Calabria, Campania, Puglia, Basilicata and Sicily - the so called "Mezzogiorno". This makes Italy is the second largest recipient of European funds after Poland.

Graph 2- Distribution of ESIF European Funds by Member State (2014-2020); Percentage, Total 638 Billion Euro



Source: Vision on European Commission data

However, other countries that need support for development, tend to do much better as shown by graph 1: Greece, Portugal, Poland, Bulgaria, they all spend more than EU average and five times faster than Italy.

The "Mezzogiorno" does then get about 50 billion Euro: it is not a trivial amount of money for South Italy. In theory, if distributed automatically in equal parts to all Italians living in the South and without any bureaucratic, multilayer intermediation, they would be enough to produce an extra growth in the income per habitant versus the rest of the country of 1.7% per year per seven years.

Yet, the distance between the South and the North is confirmed to be the only permanent feature characterizing the 170 years of Italian history and it is, in fact, growing.
Productivity, according to SVIMEZ (an institution whose specific objective is to study the problem), keeps shrinking (- 0,6% in 2016 after having lost 6 percentage points since the 2007 crisis and 8.5 since 2001) at a quicker pace than in the rest of the country. The income per person in the South is today 11.3 per cent lower than it used to be in 2007.

Here, therefore, comes the paradox.

How can Italy's Economy Minister Padoan and the Head for Economic Affairs of the Commission Moscovici enter every year a tug of war on whether Italy should be allowed to have a couple of more points of deficit over GDP where this sums up to an additional couple of more billion euro of Italy's own money? And how can he do this when the country is not able to spend much more money that the European Commission is granting out of its pocket for the development of its Regions?

In fact, it is not even just a question of how quickly money is spent. Even when there is an acceleration of expenditure due to the threat of the Commission to withdraw the money, the indicators of South Italy's economy stay flat. This is to say that not only money is spent very slowly, but also badly when the public administrations eventually do so.

This evidence points to what is the key problem beyond all the rhetoric of the flexibility versus austerity debate.

The real question is that you cannot call for some neo-Keynesian injection of public investments, when public investments are channelled by an administration that does not know how to avoid time reducing the value of investments, and that does not know how to assess different options for investing and, often, ends up rewarding organized crime.

The problems is one of public administrations who seem to have neither the managerial skills nor the strategic tools to design and manage programmes which are increasingly oriented towards innovation and territorial specialization. Moreover, it is a policy with a *shared competence* between the Commission, the Member States and the Regions which leaves no space for accountabilities.

In fact, not even the procurement of professional services from outside the administrations seems to help: a few days ago, the Italian antitrust fined heavily the big accounting firms (Deloitte, PWC, Ernst Young and KPMG) for having created a cartel within the 2 billion euro market for consulting to the Italian public administrations managing structural funds. Mechanisms governing both public administrations and consulting seems, in fact, geared toward the idea that the people responsible for territorial policies are always the same regardless of results.

It is an Italian problem but not only. Evidence says that disparity amongst regions within countries are increasing, notwithstanding the half trillion Euro that makes territorial cohesion the most endowed European policy.

The only possibility is accountability and disintermediation:

1. Establishing mechanisms which would reallocate resources from less to more effective regions or countries, and from less to more productive industrial or technological objectives. This would mean that Regions such as Sicily no longer have the convenience of staying under developed for ever.
2. Creating financial instruments – for instance, close end funds where the State and venture capitalists pool money together in order to invest in the areas (agriculture, cultural heritage, aerospace) where Regions decide to specialize –would allow investment that no longer lose much of their value through administrative bottlenecks.

It would be a core task of the European Union to propose to change the way regional policies are managed and of Member States to enter an open, transparent debate with their public opinions.

After all waste of public money and "places left behind by globalization" are two of the main trends that fuel populism: leaving cohesion policies to bureaucracy risks further deteriorating the legitimacy of both Europe and Member States.