European Journal of Political Economy 38 (2015) 12–41

Contents lists available at ScienceDirect

European Journal of Political Economy

journal homepage: www.elsevier.com/locate/ejpe

# Past dominations, current institutions and the Italian regional economic performance☆

Adriana Di Liberto [a,b,c,*], Marco Sideri [a,c]

[a] University of Cagliari, Italy
[b] IZA, Germany
[c] CRENoS, Italy

ARTICLE INFO

*Article history:*
Received 7 March 2014
Received in revised form 24 December 2014
Accepted 24 December 2014
Available online 31 December 2014

*JEL classification:*
O11
O43
C26

*Keywords:*
Economic development
Institutions
History
Instrumental variables

ABSTRACT

We study the connection between economic performance and the quality of government institutions for the sample of 103 Italian NUTS3 regions, including new measures of institutional performance calculated using data on the provision of different areas of public services. In order to address likely endogeneity problems, we use the histories of the different foreign dominations that ruled Italian regions between the 16th and 17th century and over seven hundred years before the creation of the unified Italian State. Our results suggest that past historical institutions play a significant role on the current public administration quality and show that the latter makes a difference to the economic performance of regions. Overall, our analysis confirms that the quality of institutions matters for development, and that history can be used to find suitable instruments.


"Different patterns of institutions today are deeply rooted in the past because once society gets organized in a particular way, this tends to persist."

[Acemoglu and Robinson, 2012, p. 43.]

## 1. Introduction

In this paper we investigate if the quality of the public sector has a significant role in the economic development of the Italian regions. To this aim, we first assess the existence of large differences in the performances of local institutions in providing public goods.

☆ The research leading to these results has received funding from the European Union's Seventh Framework Programme FP7-SSH-2010-2.2-1 (2011–2014), under grant agreement no. 266834 SEARCH project. We would like to thank Fabiano Schivardi for his suggestions, Davide Fiaschi, Emanuela Marrocu and Claudio Detotto for providing us with very useful data, Pierpaolo Merlin and Giangiacomo Ortu for very useful discussions on historical facts. We also thank two anonymous referees, Marco Caliendo, Wendy Carlin, Federico Crudu, Oliver Falck, Luigi Guiso, Paolo Malanima, Lars Persson, Giovanni Sulis and seminar participants at the 11th Journes Louis-Andr Grard-Varet (Marseille), XVII DEGIT Conference (Milano), 53rd SIE Conference (Matera), ICEEE Conference 2013 (Genova), RES Conference 2013 (Royal Holloway, University of London), 2013 ERSA Conference (Palermo), and at the IFN (Research Institute for Industrial Economics) in Stockholm, University of Trieste and Cagliari for their helpful comments and Cristina Murroni and Andrea Schirru for their precious help.
* Corresponding author at: DISEA, Università di Cagliari, Via Sant'Ignazio 17, 09123, Cagliari, Italy.
*E-mail addresses:* diliberto@unica.it (A. Di Liberto), msideri@unica.it (M. Sideri).

http://dx.doi.org/10.1016/j.ejpoleco.2014.12.006
0176-2680/

Second, we identify in the different realms and foreign dominations that ruled the Italian peninsula in the past centuries a crucial factor which helps explain current institutional performance.

Our analysis is related to the growing literature that dates back to the end of the nineties and investigates how history (and historical institutions) may still influence existing institutions and, through this channel, current economic outcomes. Seminal contributions in this area are those by Engerman and Sokoloff (1997, 2000), Acemoglu et al. (2001, 2002), La Porta et al. (1999, 2008) and, more recently, Acemoglu and Robinson (2012). In this framework, good/bad institutions or, more broadly, social infrastructures, characterized by different levels of efficiency and effectiveness, have a fundamental effect on the observed differences in productivity or per capita GDP.[1]

Italian data are most suitable for studying the role that the quality of institutions (broadly defined) have in economic development. First, with few exceptions, Italian regions have formally identical central Government institutions since 1861. Second, in spite of this apparent institutional homogeneity, there exists a deep, persistent duality in the Italian economy between the developed North-Center and the less developed South unlike most within-country data sets. Finally, while the dual character of the Italian economy has been often associated to regional differences in fundamentals such as social and human capital endowments, a satisfying explanation of the persistence of the regional divide has not yet been put forward.[2] Therefore, the Italian regional sample represents a good candidate to examine different functioning and effectiveness of local institutions in a developed economy.

In defining and testing an explanation based on the role of institutions in economic development, we face two main problems. The first concerns the measurement of institutional quality, the second has to do with endogeneity.[3] To deal with the first problem, a well-known difficult empirical issue, we calculate an index of institutional quality defined as the outcome of public policies via principal component analysis. We identify the Italian NUTS3 regions or provinces as the ideal level of geographical disaggregation for an analysis of the role of local institutions. Indeed, Guiso et al. (2004) already show the presence of significant heterogeneity in the quality of the provision of public service, measured as the number of years necessary to complete trials, in Italy at NUTS3 level. Moreover, the provision of various public services planned by Italian provinces is, at least for the most part, very limited in scope and should not involve complex policy decision processes. In particular, provinces are directly involved in four main areas of public service: environment, health, energy policy and educational infrastructure. Given the strong influence exerted by the central government upon the provision of these public goods at the provincial level, we should expect highly homogeneous outcomes across different areas a priori. As we shall see shortly, this is not the case and we therefore use this as a quality of the overall Italian public sector proxy. In fact, we observe that the same formal institution seems to function very differently in different environments, suggesting that some location-specific informal factor plays an important role.

Besides, the use of NUTS3 regions helps us to deal with our second concern, the endogeneity problem between economic outcomes and institutional quality, since it enables us to better identify our chosen instruments at a fine geographical level and take advantage of the local/area variability. More precisely, our identification strategy relies on instrumental variables and exploits the Italian past history to build different sets of instruments.[4] Indeed, unlike most European countries, Italian history has been characterized by high levels of political fragmentation that gave origin to administrations of different kind. Since the Middle Ages the Italian peninsula has been also subjected to different waves of colonisations and the numerous dominators that governed over centuries had very different cultural and political features and implemented highly heterogeneous formal institutions in the administrated territories. The two extreme cases are identified by the State of the Church, that was an example of corrupt institutions and administrative inability, and Austria that is usually portrayed as a good administrator that did not implement exploiting or extracting policies.[5]

Thus, we focus on the different dominations as the critical historical events that matter for current institutional settings but do not plausibly influence current economic performance. In fact, in this study the current functioning of similar formal institutions at the local level are thought to be, at least in part, the result of the previous existence of highly heterogeneous formal institutions created by historical accidents across the Italian regions. In this respect, our study is related to the recent literature that explores the role played by informal institutions in economic outcomes, where the informal element affecting the functioning of similar formal institutions is thought to reflect local differences in social capital, and that in our context is more easily associated with specific features such as managerial practices, culture or citizens behavior (for example, Guiso et al., 2008; Tabellini, 2010).

It is also related to the specific literature developed by legal scholars on *transplant institutions* that focuses on the importance of legal institutions and cultural transmission. In other words, these studies stress how societies are governed by both formal and informal norms and institutions and assume that the informal legal order may slowly evolve over time significantly affecting the

[1] For a survey see Nunn (2009) and see also Hall and Jones (1999). Recent studies also focus on the role of the quality of institutions on subjective well-being finding a positive association between happiness and specific measures of institutions. On this see Bjrnskov et al. (2010).

[2] In particular, within the large literature on social capital and development, studies on the Italian regions' case dates back to Banfield (1958) (see also Putnam, 1993), and Italian data still represent one of the most commonly used dataset in these empirical analysis. On differences in social capital endowments across Italian regions see among the many others the recent papers by Guiso et al. (2008), Tabellini (2010), de Blasio and Nuzzo (2010). On Italian regional dispersion of educational attainments see Di Liberto (2008).

[3] While within-country studies are also likely to be plagued by parameter heterogeneity problems that may affect empirical investigations on this topic. As stressed by Eicher and Leukert (2009) empirical cross-country analyses that use both developed and developing countries show parameter heterogeneity problems since it is unclear whether the identified institutions also hold explanatory power in advanced countries and whether they matter to the same degree across all countries or, conversely, a different set of institutions matters in advanced vs. developing countries.

[4] On this see Acemoglu et al. (2001), Rodrik et al. (2004), Pande and Udry (2005), Guiso et al. (2008), Tabellini (2008) and Bosker and Garretsen (2009) among the others.

[5] For details on this see Appendix B1.