Territorial Heterogeneity, Institutional Structure and Rural Development.

An Evolutionary Interpretation of the Italian Experience

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Summary
The paper proposes an evolutionary reading of rural development referred to cases of rapid industrial growth, where a strong concentration process has involved the main urban centres and the successful industrial districts. This territorial development pattern has gradually extinguished rural society and its institutional basis, creating a clear separation between new central and peripheral areas. The consequent effects on local economy and social dynamics reveal the long-term risks raised in terms of development sustainability. An empirical study of two Italian provinces is also carried out to show how this framework can be helpful in interpreting real historical patterns.

Keywords: Evolutionary Approach to Rural Development, Institutional Structure, Italian Rural Industrialisation

1. Introduction

This paper mainly focuses on the recurrent empirical evidence that rural development depends on the location of manufacturing activities in rural areas. The paper aims to advance a conceptual and analytical framework designed to explain such patterns of rural industrialisation and to use it to interpret the historical evolution of two real cases.

Although the paper is a joint effort by the authors, sections 2, 3 can be attributed to Esposti, sections 1, 4 to Sotte. The paper is a result of research of “relevant national interest” on the subject “Employment in rural areas” co-financed by the Italian Ministry for the University and Scientific Research (MURST). We greatly acknowledge the helpful comments of two anonymous referees.
Rural areas’ economies are often considered weak due to the joint effect of remoteness and small scale. The former increases production and transaction costs, the latter prevents high returns to scale. According to this argument, both features should determine competitive disadvantages for rural areas in their competition with urban ones, and a permanent decline in population and employment should be expected. However, this “law” of rural decline is largely contradicted by the empirical evidence. Many recent studies have shown that some rural areas may experience more intense growth than urban ones. In the USA (Henry and Drabenstott, 1996; Bernat, 1997), in the European Union (Esposti et al., 2000), and in many other OECD countries (Bollman and Bryden, 1997; OECD, 1994 and 1996a), many rural areas display population and employment increase due to their specific capacity to turn alleged disadvantages into competitive advantages. Among the most striking evidence in this regard is the rapid industrial growth achieved in the recent decades by many European rural areas, of which many Italian industrial districts can be considered outstanding examples (Fuà, 1988).

Some recent studies have reviewed the prevailing approaches to rural development in agriculture economics, regional economics and rural sociology (Terluin, 2000; Blanc, 1997). A first distinction between them relies on the interpretation of rurality either as geographic character or as social character (geographical approach vs. constructivist approach); in the former case rurality is a character referring to an area, a region, in the latter to a kind of society representing an area. Within the geographical approach to rurality, the spatial approach, rooted on classical models of spatial economics (Krugman, 1998), regards rural space as opposite to urban space and considers its development essentially driven by the distance from agglomerated areas and the costs
associated to it. Alternatively, the territorial approach does not view the rural area as an undifferentiated space but as a territory with its own specificity and historical development patterns also including its inherent social characters. Following this view, the development perspectives of rural areas rely on the peculiar features of the local economy and there is no dualism with the urban space. The Italian recent growth, strongly founded on the successful experiences of local development (Becattini, 1998a; Fuà, 1988), has significantly fostered this approach. Furthermore, it has also questioned the need of a rural-urban dichotomy (Saraceno, 1994), and of an approach to rurality itself, the local real conditions being always a continuum between rural and urban (the *rurban continuum*).

Different approaches to rurality also imply different definitions of what a rural area is. In the spatial approach the density of population and of economic activities (Walford and Hockey, 1991; OECD, 1994; OECD, 1996) is usually regarded as the main and exhaustive character of rurality. However, whenever the local and social characters are considered relevant to define rurality, many more variables should be taken into account; set of indices have been therefore proposed, basing on the implicit idea of what a rural society should be (Cloke, 1977; Kayser, 1990). Alternatively, other authors consider useless any definition of rurality, stressing the attention on what is specific and peculiar with the local context, regardless it is urban or rural (Hoggart, 1988).

All the above mentioned approaches seem inadequate to some extent whenever empirical cases have to been analysed because they tend to be selective and static. A local rural system always implies at the same time some specific character of the local society and economy as well as some geographic character in terms of density, distance, remoteness. All these aspects co-evolve and shouldn’t be considered separately;
whatever is the selected definition of rurality, the challenge is to study the co-evolution of both the society and the space in the local context. This co-evolution is highly affected by both external and internal conditions, which are specific and historically defined producing an irreversible development path. Rurality is therefore an historical character of both an area and a society created as well as destroyed by the ongoing social and economic evolution.

This evolutionary view of rural development can be based on the general principles outlined in Allan and Sanglier (1981) and has been valuably introduced in Allanson et al. (1995). These authors also provide an interesting application to two cases of rural issues in Britain. The approach is also adopted here and applied to two similar Italian cases of rural industrialisation to be considered as major examples of the national way to local development. According to the discussion above, the definition of rurality is not so crucial in the approach; it has only to express a dynamic and temporary character of an evolving local economy and society. Therefore, despite different and more complex definitions have been proposed also for the Italian case (INSOR, 1994; Storti, 2000), we adopt the largely accepted and simple definition of rural region given by the OECD, only based on the demographic density at the commune level and on the population distribution across the region (OECD, 1994 and 1996)\(^1\).

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1 The OECD definition distinguishes two hierarchical levels: the local community level and the regional level. If population density in a commune is lower than 150 inhabitants per square kilometre then it is classified rural; otherwise it is urban. Then, if a region has more than 50% of population living in rural communes it is classified most rural; if this share is between 50 and 15 it is classified significantly rural; if lower than 15% it is most urban. In addition, if a region includes a city of 200,000 inhabitants or more it is classified at least significantly rural; if it includes a city of 500,000 inhabitants or more it is classified most urban.
2. An evolutionary interpretation of rural industrialisation

A closer inspection to the mentioned rural “success stories” reveals a number of frequent regularities (Espositi et al., 2000; Bernat, 1997). Most of the “successful” rural areas have a considerable capacity to attract manufacturing jobs. Moreover, employment growth in manufacturing is frequently achieved by low-medium tech activities, and it is strongly specialised in one or few sectors. What accounts for this rural “success”? The analysis should start from these empirical regularities and explain the rural localisation of economic activities. The traditional explanation of rural localisation rests on three components (figure 1).

[Figure 1 here]

The first component is the lower (implicit or market) price of some crucial production factors, mainly labour, as confirmed by the lower wages frequently observed in rural manufacturing, and land for industrial settlement. The second component are all the localisation economies arising from the concentration of many firms belonging to the same industry in the rural area. If this concentration-specialisation process reaches a threshold critical mass, it creates local comparative advantages in terms of local skilled workers, information and technology diffusion, efficient labour markets, etc.. This industrial clustering is essentially the origin of so-called ‘industrial districts’, and of the Marshallian localised external economies which make them highly competitive (Rosenfeld, 1992; Becattini, 1990). The third component is the presence of urban spillovers. Rural areas can draw advantage from their contiguity to urban agglomeration, which usually provides financial and business services, infrastructures and increasing
demand for supplied products while furnishing the demanded inputs (the ‘urban economies’). Actually, both the industry clustering and the urban spillover explanations of rural industrialisation rely on some concept of scale economies. Therefore, we might conclude that rural areas are able to achieve industrial development by overcoming their structural “small scale” constraint with some positive localised scale effect.

These traditional explanations are not entirely satisfactory. On the one hand, they often tend to relate the rural advantage to a hierarchical dependency on urban areas. In addition, traditional explanations should not be interpreted as static and additive forces. The three mentioned components can be found *ex-post* in most of the successful (in terms of industrial development) rural regions. However, if they were observed during their transformation, the three features would appear in different periods and would be dynamically related in an evolutionary sequence: they are different parts of the same ongoing rural development process.

An alternative evolutionary reading of the rural industrialisation pattern, could therefore provide a deeper insight into the real cases, their regularities and specificities. It has to rely on the basic concepts of the evolutionary approach to spatial analysis with its consequent application to rural development (Allen and Sanglier, 1981; Allanson *et al.*, 1995). The first major idea is that the evolution of an area over time is driven by its original (genetic) characters embedded in the society there settled. These genetic characters interact with the external context and express themselves in the form of spatial organisation, thus in the phenotypic character given by the geographical structure. Basing of this structure, the combination of internal and external forces induces a selection of the original characters and only some of them are then transmitted over time.
The second basic idea is that the main internal force driving the transformation is the self-organisation of the complex society and economy, that is the spontaneous emergence of structures at the aggregate or macroeconomic level from the seemingly uncoordinated behaviour of individual agents at the microscopic level (Allanson et al., 1995). This internal coordination process, however, also depends on external conditions (neighbour effects, markets, technology and tastes) that are always uncertain and stochastic to some extent. Consequently, the third basic idea is that the process of selection and transmission of local characters is itself partially stochastic; thus, it can take unexpected directions and it is irreversible. In this sense, both spatial and social organisation can be rarely stable or sustainable, but can be resilient, that is capable of quick adaptation to changing conditions.

We can synthesise these principles by stating that a rural area, both in terms of social and geographic characters, evolves over time through a sequence of stages and each of these stages can take different forms, or states. The evolution over stages and states can selectively transmit social and geographical original characters and the rural ones can eventually vanish. It also follows that this evolutionary approach can not provide us with a general theory of rural industrialisation; it only allows to define the main possible stages and states of the process and the logical (if-then) linkage between them. Following this argument, the traditional explanations themselves can be resumed and reinterpreted: in an evolutionary perspective the three components described above become three stages in rural industrialisation. Using this framework, we can describe the historical pattern of a real rural industrialisation case, although it is always unique to some extent.

According to these arguments, what we mean here by evolutionary interpretation is something different from the prevalent view of the evolutionary approach to economic geography. In this latter case, “it can
The actual pattern of rural manufacturing growth is very often founded on a number of important pre-conditions for embryonic industrialisation. This is the first stage in this pattern of rural development, because these pre-conditions eventually create the local competitive advantage – that is, lower unit costs – which then generates scale effects. The real micro-foundation of these advantages is the rural institutional setting, or in other words the set of (formal or informal) rules and organisation, consolidated behaviours and traditions locally and steadily defined. The main emergence of the rural institutional structure is the dominance of small group scope economies. Frequently, and traditionally, the small group is the extended agricultural household, but the idea can be applied to small rural villages and communities as well.

Small group scope economies make the individual’s utility coincides with the group utility and arise because the small group needs to provide many goods and services while reducing risk at the same time; this need is caused by the remoteness and small scale of the local rural economy. In this multi-task context, it is optimising to have heterogeneity of roles, of knowledge and skills – that is, diversification and flexibility. The truly important outcome of this system is its efficiency as an incentive scheme. Indeed, in a context of small group scope economies, there is a large amount of self-employment. By virtue of their high self-employment rates, these local systems achieve high social mobility through low reservation wages, less social conflict and strong...
motivation to entrepreneurship, while heterogeneous, redundant\cite{4} and diffused knowledge and skills simultaneously create the capacity to exploit new market or/and technological opportunities.

These features are generally acknowledged as specific characters of rural areas (Allanson et al., 1995; Lowe, 1997) but can be very differently developed over regions and time. They give rise to the selective flexibility enabling the embryonic industry to take advantage of an external transitory opportunity (new markets, new technology, etc.) (Becattini, 1998a). As far as low and medium-technology activities are concerned, these rural economies can at the same time foster learning and knowledge conservation, creating the conditions for further adjustment. Therefore, in evolutionary terms, these rural systems tend to be resilient systems (Common and Perrings, 1992). Whether this character is strong enough to allow the rural area to move to the next stage of the industrialisation process depends on the specific context; there must be some external changing condition making the high resilience particularly advantageous compared to other areas. But it can also be the case that, in the given historical context, the institutional resilience can be relatively weak or in deep transformation making the opportunity fade away.

Under the mentioned conditions, these original competitive advantages locally attract resources towards some specific industry, generating a sectoral cluster (the second stage). This specialisation process is needed because it introduces local scale economies (external to the firm but internal to the industry); if it reaches a threshold critical mass, these local scale economies can overcome the traditional rural diseconomies and then consolidate and persist in the long run. However, this threshold mass (that is, the

\cite{4} By ‘redundant knowledge’ we mean knowledge which is not economically relevant at present but may be a strategic competitive advantage in the long run.
industrial district) can be only sustained by concentrating resources, population, knowledge and skills toward the agglomerating industry, thereby combining territorial concentration and specialisation. The original rural institutional setting “collapses”, from both a geographical and sectoral point of view, into an embryonic core, which is needed in this pattern because it has to provide urbanisation economies (which are both external to the firms and to the industry) to the growth of the industrial district. At this point the industrial district reaches a mature stage and is permanently linked to an urban core, becoming an urban-industrial system (third stage).

Reinterpreting the traditional causes of rural industrialisation in the mentioned evolutionary terms, therefore as stages in the long-run growth of local economy (figure 2), some important issues emerge. On the one hand, the industrialisation process may fail. The causal (if-then) linkage between the stages can generate too small local economies in that given external and historical context to offset the traditional rural diseconomies. For instance, a weak institutional setting does not provide enough local economies (low inputs cost) to create advantages for stable industry clustering; if this latter does not reach the critic mass thus concentrating strong local externalities in an industrial district, it does not foster enough the agglomeration process.

On the contrary, if the rural industrialisation takes off, the evolutionary sequence of stages radically changes the local institutional structure and the underlying incentive schemes strongly affecting the original resilience, eventually reducing the competitive advantages in terms of lower inputs cost. Artisan specialisation within a rural society can still provide resilience and flexibility. But when specialisation is combined with a concentration/urbanisation process it can introduce increasing rigidities, mainly increasing information asymmetry and transaction costs. These arising frictions can be
expressed by major changes in the industrial relations between the firms and in the functioning of the labour market within the industrial district. Moreover, this “collapse” to a core creates a marginal “new periphery”, which tends to reinforce the rural disadvantages no more compensated by the original resilience. The process is therefore inherently irreversible and, although it can successfully reach the mature stage, it is not necessarily stable in the long run.

This evolutionary framework is not really a formal model; the evolutionary approach does not necessarily aim to build formal models and does not rely on any neo-classical principles of dynamic optimality (Allanson et al., 1995). The depicted evolutionary multi-stage rural industrialisation pattern (figure 2) is just a tool for a stylised interpretation of the real historical experiences (Becattini, 1998b); it can argue for the relevant variables to be studied over time as indicators of the movement through the stages. In the next section we will analyse the case of two Italian provinces whose specific long-term development can be fruitfully interpreted on the basis of the outlined framework.

[Figure 2 here]

3. The empirical case: the foundations of Italian rural industrialisation

There are many examples of European rural regions that experienced successful industrialisation (Jensen-Butler, 1992; Terluin and Post, 2000; Vazquez-Barquero, 1988). The Italian rural regions located in the North-Eastern and Central part of the
country, which have been called “Third Italy” (Bagnasco, 1977), are among the most typical and thoroughly studied ones. Based on small and medium enterprises and on low and medium tech activities, they are regarded as outstanding stories of successful endogenous industrialisation (Fuà, 1988).

The Marche region with its various industrial districts is one of the most interesting examples of this rural industrialisation process. We shall focus particularly on two provinces of the Marche region: Pesaro and Macerata (figure 3). Both well represent the regional development pattern, with relatively small urban centres and markedly successful industrial poles on the world markets: the furniture district in Pesaro and the footwear district in Macerata. However, outside these successful areas both provinces display a diversified rural system also with marginal areas, especially mountainous ones.

[Figure 3 here]

The objective in analysing and comparing these two provinces is to show how their long term development can be read through the evolutionary framework outlined above. Moreover, the comparison of the two shows how their evolution is actually a co-evolution because they share many structural features though they can historically take some specific forms. At the same time, the comparison also suggests that along this

5 Traditionally, the Italian economy has been considered dualistic, with an highly developed part, represented in particular by the Milan-Turin-Genoa triangle, characterised by traditional large-scale industrialisation and large cities, and a second less-developed dual part consisting of the Mezzogiorno to which the transfers of national re-equilibrium policies have been mainly dedicated.

6 Marche is a significantly rural region of about 1.36 million inhabitants and 960 thousand hectares, lying in central Italy, bordering to the west on the Appenine mountains and descending to the Adriatic coast to the east. It has no large urban centres; there are no towns with more than 100,000 inhabitants, and there are only four towns with more than 50,000. It is, therefore, a region without an apparent centre-periphery
common pattern, the apparently minor differences can become significant and permanent divergences in the provinces’ long-run perspective whenever a structural change in the external conditions and a deep internal transformation occur. This empirical analysis, however, can not be viewed in any case as a formal model testing; the inherent complexity of the outlined evolutionary framework actually prevent from any precise modelling (Allanson et al., 1995). However, it is neither a series of merely speculative assertions; the approach is helpful in finding and selecting those indicators that provide an empirical support to the interpretation of the long-run rural development pattern. Stages and states of the rural industrialisation process can be effectively detected through some key-variables and their evolution over time. This is the philosophy of the empirical analysis in this section. Section 3.1 will describe the two provinces along a common long-run process making them very similar in evolutionary terms. Section 3.2 will then try to outline what perspectives can be drawn in the two cases from both their common and different features.

3.1. The industrialisation-concentration process: new centres, new peripheries

We want now to read the evolution of the two provinces through the stages described in the previous sections and in figure 2. First of all, we check whether the depicted local development process, from the initial rural conditions to the formation of an industrialised and concentrated core-area, actually took place in both cases and with common features. The key-variable here is the demographic evolution. Figure 4 illustrates the long-term demographic evolution of the Marche region by means of the hierarchy, as well as being one whose recent industrial growth has been based on a highly localised and specialised traditional manufacturing (mostly footwear, furniture, clothing, textiles, but also machinery).
Census data from 1861 (the first Italian Census year) to 1997\(^7\). The same pattern can be easily detected in any province. Until 1951, the population increased quite regularly and intensely; then the growth stopped and a period of demographic decline began. Population has resumed growing since 1971, although at slower rates. Behind this pattern, one can discern radical change in the local society and economy. Agrarian and pre-industrial societies are characterised by high fertility and low female participation rates to labour markets and this fosters population growth (Schultz, 1981 and 1985; Davis, 1987). During the 1950s two striking phenomena began to appear. On the one hand, the exodus from the countryside and the agricultural sector reached the highest level and was directed mainly towards Rome and the richer regions of Northern Italy and Europe, causing high emigration rates (see also figure 9). At the same time, female participation in the labour market significantly increased, reducing the fertility rate. Both effects were reflected in demographic decline.

The region and the two provinces were classifiable as prevalently rural in 1951, according to the OECD definition; in 1991 they were classified as significantly rural. However, this shift in the degree of rurality was not caused by a generalised population growth; rather, it was due to a large-scale redistribution of the population across the territory. Table 1 shows that density, and therefore population, greatly increases between 1861 and 1951 while remains quite stable between 1951 and 1997 in both provinces. However, if we consider the density at the communes level, on which the OECD definition is based, the Coefficient of Variation\(^8\) exhibits the opposite behaviour: it remains quite stable between 1861 and 1951, while it greatly increases between 1951

\(^7\) 1997 is not a census year; however it is the last available year in the official population statistics. In figure 4, the expected population at census year 2001 is extrapolated from the average growth rate between 1991 and 1997.

\(^8\) This is the ratio between the standard deviation and the sample mean of density at the communes level.
and 1991. This means that almost the same population was consistently redistributed across the provinces’ territory, concentrating in the urban centres mainly along the coast (figure 4).

According to figure 2, it must be verified whether this concentration process is closely and evolutionarily linked to industrialisation. Regional industrial growth began to strongly affect demographic evolution in 1971. Firstly, it halted emigration by reorienting the exodus from the agricultural sector to the new industrial agglomerations within the region and its provinces; secondly and more recently, it attracted immigration from Southern Italy and from other countries, especially Northern Africa and Eastern Europe (see also table 7). However, fertility rates have continued to decline, and the low but positive population growth of recent years is entirely due to net immigration. Therefore, during the period of most intense industrial growth, there is no relevant population growth; rather, it “collapses” (as is clear in figure 4) to centres corresponding to the main industrial areas (the local industrial districts; figure 3).

How, when and where did these industrial districts actually grow up? The rural origin of the local industry is based upon some preconditions that actually provided strong resilience to the local economy and society and that became effective when favourable external conditions occurred in the sixties and seventies (stage I). These rural preconditions can be synthesised in two aspects: the structure of the production system, the prevailing institutions and incentives in labour use. The first point refers to the very
small size of the production units both in agriculture and in industry; these units roughly correspond to the size of the traditional extended rural household. Small production units and large families are indeed characters of the Italian society of the early 20th century; however, these characters are particularly strong in the cases under study. Table 2 shows that in the first half of the century the firm size was permanently smaller in the two provinces if compared to the national average whereas the family size was greater. Although after the second world war both began converging to the Italian averages, until the sixties the average family had more components than the average firm in the two provinces. The substantial correspondence between the household and the firm has indeed some important consequences: manufacturing is essentially artisan, often homemade, implying low-tech and small scale processes but directed by highly skilled and experienced workers and entrepreneurs. Moreover, any family component has a specific but integrated productive role in the household as well in the firm.

For what concerns the system of institutions and incentives, here the most relevant role must be acknowledged to the sharecropping system, which is actually a specific historical character of the Marche region with respect to the rest of Italy (about 50% and 8% of total farms in 1961 respectively). Table 2 shows that until the sixties sharecropping has been the prevalent institutional arrangement in both provinces. Moreover, agriculture still employed more than 50% of the local labour force, thus a relevant part of the population (almost 30%) was involved in the sharecropping system compared to only 3% in the rest of the country. Sharecropping provided a remarkable incubation of the local entrepreneurship coming out from the agricultural sector and entering the artisan and industrial production, that is for the so called proto-industrialisation (Paci, 1979). It has been widely acknowledged that sharecropping can
be an optimal incentive device under certain conditions (Bardhan, 1989) and many historical analyses about Marche and other Italian regions has confirmed this interpretation. An empirical study in the footwear district under study revealed that more than 50% of the industrial firms came from sharecropping families (Blim, 1989).

Table 2 here

On the basis of these embryonic characters some external conditions greatly fostered the take-off of the local industry: the intense growth of the internal demand in Italy in the sixties; the crisis of the Fordist model with the increasing tendency to decentralisation, particularly in the seventies (Abramovitz, 1989; Fuà, 1980). Under these conditions, the growth of the local industry that started in the sixties, became an efficient reaction to the crisis of the Fordism a decade later. On the base of the pre-existent artisan traditions and of the depicted household-firm structure, a rapid growth of the number of small industrial firms as well of industrial employment took place in both provinces mainly during the period between the sixties and the eighties (as reported in Table 3, employment growth in manufacturing in the period 1951-1981 has been +325% in Pesaro and +232% in Macerata).

It is a common feature that this industrial take-off strongly oriented towards one industry and, at the same time, towards a limited portion of the provinces (stage 2). Table 3 shows how strong is the specialisation in the two cases and also that specific local artisan traditions made different specialisation prevail in the two provinces. Therefore, specialisation is not a result of the take off but an important precondition of

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9 In 1996, the specialisation index of Pesaro with respect to Italy in furniture is 6; the specialisation index of Macerata with respect to Italy in footwear is 11.
it providing the locally specific artisan skills on which the respective industrial districts were based. In both cases the number of firms did not increase very much between 1951 and 1971 (actually it decreased in Macerata) but the number of employees doubled; this is the crucial phase of the transformation of the local production structure from artisan to industrial. After this, both the number of firms and of employees greatly grew in the seventies maintaining the strong specialisation in the respective key-sectors; this is the period when the two provinces, and in particular the industrial districts, achieved a dominant role in the national and international sectoral markets. In 1996 Pesaro ranked 4th and Macerata 2nd among the Italian province in the furniture and footwear production respectively. These are also sectors in which Italy has traditionally a dominant role in the world markets10.

[Table 3 here]

Therefore, the evolution of the two provinces is common in many respects but also diverges in one crucial point: the manufacturing sector in which they strongly specialised. This sectoral specificity can also generate important divergences in the timing of the industrialisation process: the main external forces affecting it, mainly changes in markets and technology, are in fact sector-specific. Table 3 suggests that the sectoral take-off mainly occurred in the sixties for furniture in Pesaro, while growth was still particularly strong in the seventies for footwear in Macerata (+35% and +140% of employment growth respectively for furniture in Pesaro and footwear in Macerata in the seventies).

10 According to the 1997 International Trade Statistics Yearbook of the UN, Italy is largely the first exporter of furniture in the World and closely contends with China for the leadership in footwear.
Figure 5 shows that the industrial growth not only concentrated in one sector but also concentrated in a limited area. Most firms are localised in few contiguous communes; 72% and 76% of the sectoral employees work in 16% and 9% of the communes respectively. Nevertheless, the geographical concentration was very weak in the fifties: only 18% and 5% of the sectoral employment was localised in the communes of the districts in 1951. Therefore, while the artisan specialisation was a precondition of the industrial take-off, the geographic concentration has been a progressive emergence of the process.

Specialisation and concentration of the industrial take-off progressively fostered the agglomeration of infrastructure and services (stage 3). For both provinces, figure 6 shows the communes with the highest share of employment in services (first 10 communes) and in manufacturing (first 20), according to 1991 Census. Services tend to concentrate where most of population has “collapsed”, therefore the urban core\textsuperscript{11}, while manufacturing is mainly located around it. The connection between the industrial district and the urban concentration of population and services emerges clearly. The high territorial correlation between many private services and manufacturing has been already shown for the Marche region in previous studies (Rigo Valente, 1993); it makes the respective concentration processes reinforce reciprocally and is eventually revealed by the demographic evolution outlined above.

\textsuperscript{11} Another case of high share of tertiary employment is provided by some communes to the interior of both provinces, which have experienced major population loss in favour of the coastal area. Here, the role of services has become so important due to gradual disappearance of other economic activities, both industrial and agricultural. In this sense, they represent the other side of the coin: the marginal parts of the territory which have not been involved in the industrialisation-concentration process and where community-based services often remain the prevalent economic activity.
3.2 Maturity or instability? Fading rural institutions

The cases of Pesaro and Macerata can be viewed as twin exemplary local stories of rural industrialisation. Their industrial take-off can be read in terms of transition over the stages of the evolutionary process outlined in section 2. Apparently, both the provinces have got through all the critical passages and their figures indicate that their urban-industrial cores reached the maturity during the 1980s: the indicators that clearly revealed the former deep transformation, both in terms of demographic evolution and industrial accumulation, seem now stationary. Table 1 illustrates how both population density and geographical distribution (i.e coefficient of variation) remain quite stable in the nineties while table 3 indicates that manufacturing growth, both in general and in the key sectors, has almost levelled off since the eighties. Table 4 shows that also the employment growth in services clearly halted in the nineties. In more general terms, from the eighties onwards the two provinces stopped the rapid convergence toward the richest part of the country. Table 4 compares the economic growth of Pesaro, Macerata and Milano (that is the richest Italian province); while the catching-up was strong in the sixties and the seventies, the tendency has clearly reversed since the early eighties (Tamberi, 1992).

However, the critical aspect of rural industrialisation, when successful, is its potential long-term inconsistency with the original rural features that provided embryonic competitive advantages and economic resilience. In fact, even when the rural industrialisation process apparently reaches a mature stage, this does not imply long-term stability and sustainability. The local system can be still in deep transformation but
those indicators that so clearly displayed the industrial take-off and that would suggest stationarity do not reveal it. Moreover, by the own characters of the evolutionary framework, there is no particular reason why the two provinces, that co-evolved in the past, should also share a common evolutionary perspective. Apparently accidental differences, such as the technological and market features of the key-industries, or differences in the timing of the events, can make the impact of changing external conditions asymmetric, eventually making the two areas diverge.

Therefore, by instability we mean that we can not predict which is the next stage in figure 2. Different alternative patterns can occur: further tertiarisation and convergence on the richest part of the country, industrial decline and delocalisation toward low-wage countries with consequent social distress, formation of new industrial specialisation collateral to the old ones, etc.. However, we can still look for some key indicators possibly outlining the potential instability of these local systems and their evolutionary perspectives. Two main aspects seem crucial and can be viewed as counterparts of the two preconditions outlined in the previous section: the restructuring of the local manufacturing system; the efficiency of the local labour market.

Both the furniture and footwear districts underwent a continuous cycle of crises and restructuring compelled by global competitive pressure from the mid 1980s onwards. The local industrial systems react to this increasing competitive pressure by shifting toward new segments of the world markets and developing new technologies, new specialities, new markets and new local leaders and hierarchies. As a reaction to this selective process, few leader firms emerged, while many others disappeared. The production process has been broken down into numerous phases, with many firms concentrated in very specific production steps. This has generated a complex
hierarchical system based on commercial and technical vertical integration. Although both the number of manufacturing employees and firms, also considering only the key-sectors, has been stable since the early eighties (table 3), table 5 and figure 7 indicate that actually there is still a great dynamism and competitive pressure on the operating firms; many new firms are formed as well many firms shut down making the turnover\textsuperscript{12} in the nineties (1991-98) close to 70\% (table 5). Despite the relative decrease of importance of manufacturing, the share of bankruptcies in industry is still quite high, nor the number of bankruptcies seems declining. In addition, the two provinces show alternate cycles in bankruptcies since the respective key-sectors undergo distinct crisis and restructuring.

These recurrent cycles may eventually give rise to further industrial success, but the success is expected to be strongly labour-saving. Table 4 shows that the two provinces performed better than the national average in industrial employment growth in eighties and nineties. However, even when the sectoral business cycle is favourable, employment grows very little whereas it declines relevantly during the negative phases of the cycle (it is the case of Pesaro in the nineties or in the footwear production in Macerata in the eighties). The recovery from crises is mainly achieved through rapid gain in labour productivity. Industrial productivity figures (table 4) indicate that the highest productivity growth correspond to periods of employment reduction, 1991-1997 in Pesaro and 1985-1995 in Macerata. After the specialisation-concentration process, further industrial success is linked to high employment growth but to intense productivity gain.

\textsuperscript{12} The turnover is the ratio between the sum of shut-down firms in the period 1991-1998 and the average number of operating firms.
This new pattern of the local manufacturing is a natural consequence both of the changing external conditions (lower demand growth, increasing international competition) and of its internal features, that is the heavy specialisation and geographical concentration. These features also affect the other aspect of the potential local instability that is the functioning of the local labour markets. In this urban context, young people are increasingly risk adverse as result of declining small group scope economies. Family size tends to decrease, as well as the social integration once arising as a reaction of the rural society to remoteness and small scale constraints; many small domestic activities, and the related informal knowledge and skillness, have been progressively marginalised by the market selective pressure. The consequent and combined effect is an increasing disincentive to take up new risky activities and self-employment. The original rural characters remain strong only in those area excluded from the specialisation-concentration process (the “new peripheries”), but here these potential advantages can not reach the critical mass to get through the initial stage of figure 2.

This new institutional structure also affect expectations of the new labour force, especially young and women. Expectations mainly concern jobs in or high-tech industrial activities services (i.e. positions with high and stable wages). These expectations also influence educational choices, which are mainly directed toward specific university degrees that only partially match labour market demand, mainly driven by the local manufacturing activities. This mismatch between labour market
supply and demand, as well as the limited access to information, eventually increases the frictional unemployment rate, particularly among the young and highly educated labour force. Figure 8 reports the registrations to the unemployment lists in the two provinces since the mid-eighties. Despite the business cycle of the respective key-manufacturing sectors, in both cases the registrations constantly increase in the case of the young (< 25 years) and women. In 1998 the unemployment rate of young women was 22% in Pesaro and 15% in Macerata, for young male was 10% and 8% respectively, whereas the overall unemployment rate was 6.5% for both provinces. Table 6 shows that unemployment duration is particularly high for qualified and graduated labour force, that is mainly young labour force. It must be noticed, however, that this mismatch and the consequent marginalisation of young, female and educated labour force is stronger in Pesaro.

Entrepreneurship itself enters a generation crisis, since local industry is often locked into low or medium tech processes, whose competitiveness is still based only on low-cost production and process innovation. The consequent demand for labour is biased toward workers with very specific skills, low reservation wages and poor career prospects. This local labour demand can be hardly satisfied by the depicted local supply. Therefore, it attracts immigration, increasingly from the Southern Italian regions and from the Eastern European and North African countries. Figure 9 and table 7 show the long term migration pattern of the two provinces. Both emigration and immigration sharply decreased from the fifties to the eighties. Meanwhile, the migration balance has become positive since the mid-seventies thus contributing to offset the declining natural growth rate. Since the mid-eighties, however, immigration (and emigration itself although at a slower rate) has begun to grow. The positive migration balance of the
period 1986-1998 comes to about 17 thousands people in both provinces; most of this growth is due to immigration from South-Italy and non UE countries whose share on total immigration increased from 13% to 22% in Pesaro and from 18% to 25% in Macerata. Again a difference emerge between the two: if related to the population, this new immigration pattern is stronger in Macerata, and this partially depends on the fact that the footwear production more markedly requires low-educated and cheap labour than furniture.

Therefore, the increasing friction between local labour demand and supply generates a dual (and inefficient) labour market (figure 10) – which explains the coexistence of low overall unemployment rates and high immigration rates with higher selective unemployment rates and emigration rates for a part of the labour force (highly-educated young and women). This duality of the labour market is the main consequence of the divergence between the transformation of the local industrial structure and of the local society and labour force. This divergence is novel with respect to the former evolutionary pattern of these economies; it generates a selective balance of migration and employment which in turn generates further potential instability of the local systems.

[Figure 8, 9, 10 here]

[Table 6, 7 here]

4. Rural development: approaches and local stories

The wide literature on rural development has at least two dominant strands (Terluin and Post, 2000). On the one hand many papers, mainly theoretical, try to outline a sort of
general theory of rural development or at least a general approach to study the development perspective of rural areas. Other contributions, mainly empirical and often descriptive, just provide a collection of real cases, where local characters and specificity can be hardly traced back to some general model.

This paper aims to provide both a conceptual framework and two case studies about the frequent and particular rural development pattern based on a rapid manufacturing take-off, that we call rural industrialisation. The conceptual evolutionary framework is based on the general idea that, whatever the definition of rurality is, either geographic or social, this character is inherently unstable when such a development pattern is taken up. The process is irreversible and stochastic and can not be synthesised in a formal model; however, it can be outlined through a sequence of key-stages whose success or failure eventually defines the new local perspectives.

According to this general concept, the real cases can be studied not aiming to a formal empirical testing but to a stylised description of the local historical experience. The two selected Italian cases allow interesting comparisons and show how geographical contiguity makes these areas co-evolve, notwithstanding the clear differences in the sectoral specialisation that drove the take-off. This common development pattern apparently came to maturity in the eighties. Actually, however, the completion of the depicted rural industrialisation opens new transformations which must be studied looking at new phenomena and indicators (such the functioning of the labour market and the industrial restructuring) and can also depend more heavily on the sectoral mix of the local economies.

Following these arguments, the comparison can show that some local specificity, such as the sectoral mix, on which many previous studies about regional development were
based, can actually be negligible the co-evolution being mainly based on the common geographical and social transformation. At the same time, however, those apparently minor differences can become crucial in defining the respective future perspectives, that is when new processes begin. Whenever the radical transformation makes the original rural features fade, the following stage of the process can also depend on some “historical incident”, making close and similar stories eventually diverge due to apparently temporary heterogeneity.
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OECD (1994), Creating Rural Indicators for Shaping Territorial Policy, Parigi.


PACI, M. (1979), Riflessioni sui fattori sociali dello sviluppo della impresa nelle Marche, Economia Marche, 6, 71-88.


WALFORD, N., HOCKEY, A. (1991), Social and economic restructuring in rural Britain: a methodology for contextual analysis, ESRC Countryside Change Initiative WP18, Department of Agricultural Economics and Food Marketing, University of Newcastle upon Tyne.
Figure 1 – Traditional explanation of rural localisation

Lower Input Costs

Industry Clustering

Urban Spillovers

Rural Advantages

Figure 2 – Evolutionary interpretation of rural industrialisation: stages and states

LEGEND:  

= failure states  

= local economies/diseconomies  

= stages  

= if-then successful relation  

= if-then unsuccessful relation

1) Institutional Structure: resilience

Remoteeness and small scale (Rural disadvantages)

Fail insufficient activation

Fail insufficient activation

Fail insufficient activation

2) Industrial District

Industry Clustering

Lower input costs

Urban economies

3) Urban/industrial local system

External conditions

?  

= if-then successful relation  

= if-then unsuccessful relation
Figure 3 – Marche region, Pesaro and Macerata provinces and the industrial districts
Figure 4 – Demographic evolution and distribution in Marche region (1 point = 30 inhabitants)

Source: ISTAT
Figure 5 – Concentration of furniture and footwear production according to the 1996 Census

Source: ISTAT
Figure 6 – Communes with the highest share of employment manufacturing (grey) and services (black; Pesaro (1991))

…and Macerata (1991)

Source: ISTAT
Figure 7 – Bankruptcies in industry from mid-eighties to mid-ninties

Source: ISTAT

Figure 8 – Registrations in the unemployment lists in the last decade

Source: ISTAT
Figure 9 – Migration patterns and balance since the fifties in the two provinces

Source: ISTAT
Figure 10 – The structure of the dual labour market

Table 1 – Density and distribution of population in the two provinces over time

<table>
<thead>
<tr>
<th>Year</th>
<th>Pesaro</th>
<th>Macerata</th>
<th>Coefficient of Variation of the communes’ density</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Density (inhab./Km²)</td>
<td>Coefficient</td>
<td>of Variation</td>
</tr>
<tr>
<td>1861</td>
<td>74</td>
<td>93</td>
<td>0.61</td>
</tr>
<tr>
<td>1951</td>
<td>121</td>
<td>116</td>
<td>0.63</td>
</tr>
<tr>
<td>1991</td>
<td>122</td>
<td>116</td>
<td>1.17</td>
</tr>
<tr>
<td>1997</td>
<td>125</td>
<td>112</td>
<td>1.16</td>
</tr>
</tbody>
</table>

Table 2 – Social preconditions to the industrial take-off in the first half of the 20th century (PS = Pesaro; MC = Macerata) compared to 1991

<table>
<thead>
<tr>
<th>Year</th>
<th>PS</th>
<th>MC</th>
<th>Italy</th>
<th>PS</th>
<th>MC</th>
<th>Italy</th>
<th>PS</th>
<th>MC</th>
<th>Italy</th>
<th>PS</th>
<th>MC</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1911</td>
<td>6.3</td>
<td>4.6</td>
<td>9.5</td>
<td>3.5</td>
<td>2.9</td>
<td>5.5</td>
<td>2.6</td>
<td>2.5</td>
<td>4.2</td>
<td>2.6</td>
<td>2.7</td>
<td>5.8</td>
</tr>
<tr>
<td>1921</td>
<td>5.0</td>
<td>4.4</td>
<td>4.3</td>
<td>5.1</td>
<td>4.3</td>
<td>4.5</td>
<td>4.9</td>
<td>3.9</td>
<td>2.9</td>
<td>3.0</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>1936</td>
<td>61</td>
<td>21</td>
<td>18</td>
<td>59</td>
<td>25</td>
<td>42</td>
<td>52</td>
<td>8</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>1990</td>
</tr>
<tr>
<td>1961</td>
<td>56</td>
<td>56</td>
<td>48</td>
<td>45</td>
<td>29</td>
<td>5</td>
<td>11</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Source: ISTAT Census of Industry, Commerce and Crafts (various years); due to differences in data collection, Censuses before 1951 can not be compared

** Source: ISTAT Census of Population (various years); in Censuses before 1961 data reported about PS and MC refer to the regional level (Marche)

*** Source: ISTAT Census of Agriculture (various years); for the data before 1961 the source is the Census of Population (various years) and data reported about PS and MC refer to the regional level (Marche)
Table 3 – Industrialisation process in the two provinces in second half of the 20th century: specialisation and concentration (PS = Pesaro; MC = Macerata)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of manufacturing firms</td>
<td>PS</td>
<td>MC</td>
<td>PS</td>
<td>MC</td>
<td>PS</td>
</tr>
<tr>
<td>3533</td>
<td>4555</td>
<td>3699</td>
<td>3775</td>
<td>5226</td>
<td>6365</td>
</tr>
<tr>
<td>Number of employees in manufacturing</td>
<td>PS</td>
<td>MC</td>
<td>PS</td>
<td>MC</td>
<td>PS</td>
</tr>
<tr>
<td>9057</td>
<td>12541</td>
<td>24448</td>
<td>24418</td>
<td>38513</td>
<td>41601</td>
</tr>
</tbody>
</table>

Specialisation*

<table>
<thead>
<tr>
<th>Marche vs. Italy (Italy = 1.0)</th>
<th>1951</th>
<th>1971</th>
<th>1981</th>
<th>1991</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees in furniture</td>
<td>PS</td>
<td>MC</td>
<td>PS</td>
<td>MC</td>
<td>PS</td>
</tr>
<tr>
<td>3377</td>
<td>789</td>
<td>8133</td>
<td>1899</td>
<td>10974</td>
<td>2450</td>
</tr>
<tr>
<td>Specialisation vs. Marche (Marche = 1.0)</td>
<td>3,5</td>
<td>0,6</td>
<td>2,9</td>
<td>0,7</td>
<td>3,1</td>
</tr>
</tbody>
</table>

Specialisation in footwear

<table>
<thead>
<tr>
<th>Marche vs. Italy (Italy = 1.0)</th>
<th>1951</th>
<th>1971</th>
<th>1981</th>
<th>1991</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees in footwear</td>
<td>PS</td>
<td>MC</td>
<td>PS</td>
<td>MC</td>
<td>PS</td>
</tr>
<tr>
<td>288</td>
<td>2467</td>
<td>804</td>
<td>6327</td>
<td>980</td>
<td>15214</td>
</tr>
<tr>
<td>Specialisation vs. Marche (Marche = 1.0)</td>
<td>0,2</td>
<td>1,0</td>
<td>0,2</td>
<td>1,2</td>
<td>0,1</td>
</tr>
</tbody>
</table>

Source: ISTAT Census of Industry, Commerce and Crafts

* The specialisation index is the ratio of share of the employment in the given sector on manufacturing in the province (region) to the analogous share in the region (country)

Table 4 – Economic growth and convergence of the two provinces in second half of the 20th century (PS = Pesaro; MC = Macerata; MI = Milan, the richest Italian province)

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Per capita Value Added</td>
<td>PS</td>
<td>MC</td>
<td>MI</td>
<td>PS</td>
<td>MC</td>
</tr>
<tr>
<td>0,71</td>
<td>3,56</td>
<td>4,27</td>
<td>4,58</td>
<td>2,58</td>
<td>3,69</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>PS</td>
<td>MC</td>
<td>MI</td>
<td>PS</td>
<td>MC</td>
<td>MI</td>
<td>PS</td>
</tr>
<tr>
<td>60</td>
<td>47</td>
<td>39</td>
<td>43</td>
<td>55</td>
<td>53</td>
<td>72</td>
</tr>
</tbody>
</table>

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<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>PS</td>
<td>MC</td>
<td>Italy</td>
<td>PS</td>
<td>MC</td>
</tr>
<tr>
<td>Industry</td>
<td>PS</td>
<td>MC</td>
<td>Italy</td>
<td>PS</td>
<td>MC</td>
</tr>
<tr>
<td>+26</td>
<td>+30</td>
<td>+27</td>
<td>+8</td>
<td>+29</td>
<td>+5</td>
</tr>
<tr>
<td>Services</td>
<td>PS</td>
<td>MC</td>
<td>Italy</td>
<td>PS</td>
<td>MC</td>
</tr>
<tr>
<td>+24</td>
<td>+20</td>
<td>+18</td>
<td>+30</td>
<td>+22</td>
<td>+39</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Productivity*</th>
<th>Pesaro</th>
<th>Macerata</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Added per worker in Industry</td>
<td>57,6</td>
<td>58,3</td>
</tr>
</tbody>
</table>

Source: ISTAT and Infocamere

* Expressed in 1994 millions of Lire
Table 5 - Firms’ turnover in the nineties: number of new (Registrations = Reg.) and shut down (Cancellations = Canc.) firms

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Pesaro</td>
<td>2240</td>
<td>2088</td>
<td>2295</td>
<td>2541</td>
<td>2095</td>
<td>3017</td>
<td>2233</td>
<td>2151</td>
<td>2277</td>
</tr>
<tr>
<td></td>
<td>2746</td>
<td>2214</td>
<td>1237</td>
<td>2148</td>
<td>2818</td>
<td>3791</td>
<td>2903</td>
<td>1337</td>
<td>2746</td>
</tr>
<tr>
<td>Macerata</td>
<td>1831</td>
<td>1956</td>
<td>1853</td>
<td>3235</td>
<td>1729</td>
<td>2021</td>
<td>1725</td>
<td>1267</td>
<td>7088</td>
</tr>
<tr>
<td></td>
<td>1313</td>
<td>2148</td>
<td>2897</td>
<td>2779</td>
<td>2788</td>
<td>6526</td>
<td>1760</td>
<td>1313</td>
<td>1760</td>
</tr>
</tbody>
</table>

Source: Infocamere

Table 6 - Average duration of unemployment (months) by education level and gender (1992)

<table>
<thead>
<tr>
<th>Education level</th>
<th>Pesaro</th>
<th></th>
<th>Macerata</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Total</td>
<td>Male</td>
</tr>
<tr>
<td>Uneducated and primary level</td>
<td>15</td>
<td>21</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>Secondary level</td>
<td>26</td>
<td>19</td>
<td>21</td>
<td>6</td>
</tr>
<tr>
<td>Qualified</td>
<td>17</td>
<td>22</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Graduate</td>
<td>48</td>
<td>38</td>
<td>25</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td>22</td>
<td>15</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: CENSIS

Table 7 – Total number of migrants since the fifties by subperiods and the increasing contribution of Southern Italy and non EU-countries in the last decade

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PS MC</td>
<td>PS MC</td>
<td>PS MC</td>
<td>PS MC</td>
</tr>
<tr>
<td>Immigrants</td>
<td>105399</td>
<td>84942</td>
<td>85395</td>
<td>71414</td>
</tr>
<tr>
<td>Emigrants</td>
<td>139743</td>
<td>110637</td>
<td>91412</td>
<td>82488</td>
</tr>
<tr>
<td>Balance</td>
<td>-34344</td>
<td>-26145</td>
<td>-6017</td>
<td>-11074</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1988</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PS MC</td>
<td>PS MC</td>
</tr>
<tr>
<td>% of immigrants from Southern Italy</td>
<td>8,4%</td>
<td>10,2%</td>
</tr>
<tr>
<td>% of immigrants from non UE countries</td>
<td>5,7%</td>
<td>7,5%</td>
</tr>
</tbody>
</table>

Source: ISTAT