

13:24 21 FEB13 -INSIGHT-TWO ITALIES SHARE PAIN AS CRISIS BITES

- * Problems of struggling Mezzogiorno spread north
- * Thousands laid off as recession deepens
- * Election leaves main problems unaddressed

By James Mackenzie and Giancarlo Navach

ACERRA/BRESCIA, Italy, Feb 21 (Reuters) - Italy is nearing election day but you would have a hard time noticing it in Acerra, a scruffy industrial town just outside Naples, best known for housing one of the largest rubbish incinerators in Europe.

"You'll see more of those than any campaign posters," said local television station boss Raffaele Tagliamonte, pointing to a display of large white obituary notices of a kind commonly seen plastered on walls in southern Italian towns.

"Most people don't seem to care. Life has got a lot harder over the past six months and people have other things to worry about," he said.

Signs of pre-election excitement are indeed few and far between, with little indication of any systematic campaigning ahead of the vote on Sunday and Monday, apart from a few scattered signs stuck up apparently at random across town.

The atmosphere in Acerra reflects the silence from the main political parties, none of which has paid much more than token lip service during the campaign to the increasingly desperate situation in the south of the country, home to one Italian in three.

But if the next government is to implement the kinds of modernising economic reforms Italy's European partners demand, it will have to tackle "il Mezzogiorno", as the south is known.

If it does not, the chronic problems of the region, a byword for economic stagnation for decades, threaten to infect even the prosperous north as Italy suffers its longest recession for 20 years and struggles to turn around a decade of minimal growth.

Campania, the region around Naples, has some of the highest youth unemployment rates in the country - up to 44 percent in some areas near Acerra. It also suffers from a perennial toxic waste problem that some link to abnormal levels of tumours and from the pervasive influence of the local mafia, the Camorra.

The industrial park on the outskirts of Acerra houses companies including aerospace group Alenia and a nearby power station provides electricity to Fiat's giant auto plant in the neighbouring town of Pomigliano.

But both are overshadowed by the shuttered Montefibre chemical plant and the A2A incinerator, a giant site guarded by troops and set incongruously in the middle of cauliflower and broccoli fields dotted with hills of rubbish covered in black plastic sheeting.

Increasingly, however, problems that were once the hallmark of the south, are showing up in the north, Italy's industrial heartland and long the dynamic motor of an enterprising economy.

"The south is suffering from historic problems which this country has been unable to solve," said Giuseppe Pasini, chairman of steel group Feralpi, based in Brescia, an hour away from Milan in the northern region of Lombardy.

"At this point, it isn't just a problem for the south, it's a problem for the north as well."

"THE TWO ITALIES"

The problem of the two Italies - an industrialised north that has been one of the richest and most productive regions at the heart of Europe and a backward, remote Mezzogiorno - goes back at least to the unification of the nation in 1861.

By almost every measure, the north has done better ever since and today generates twice the gross domestic product per head as the south. The region of Lombardy, powered by a network of efficient small and mid-sized manufacturers, outweighs the national economies of, say, Belgium or Austria on its own.

Long supported by heavy public investment, much of it seemingly designed to secure votes rather than profits, the state-backed industrial mammoths of the south have struggled to survive the increased competitive pressures that Italy has faced as European markets moved closer together in the past 20 years.

In Campania, the official unemployment rate is 15.5 percent, about three times the level in Lombardy. Add in the 53 percent of adults registered as "inactive", that is not in employment or studying and not looking for a job, and it adds up to almost 70 percent of adults in the region who are not working.

"During the 1990s, everything collapsed," said Andrea Colli, a professor at Milan's Bocconi university and a specialist in economic history. "State-owned enterprises located in the south were basically unsustainable in terms of economic efficiency."

The region as a whole accounts for almost a third of Italy's aerospace production as well as a big part of its shipping and car production but successive governments have failed to create the conditions for sustained development.

Across the border from Campania in neighbouring Puglia, the giant ILVA steel works, latest symbol of the decline of Italy's heavy industry, is fighting to survive an environmental scandal over toxic emissions and has just put 6,500 workers, a third of its employees, into a state fund to pay idled workers.

In Pomigliano, Fiat has 4,600 workers in the same scheme, as well as a further 2,200 from a plant in Sicily.

"The strategy for developing the south should have been defined as part of a wider vision," said Massimo Deandreis, head of the Studi e Ricerche per il Mezzogiorno, an economic research institute in Naples.

"There has been a failure of governance in industrial policy, weak guidance from the centre and inappropriate demands placed on the regions," he said.

COMPETITIVENESS

In Brescia in the north, part of the manufacturing heartland where Italy's first industrial association was set up in 1897, the mood is less apocalyptic, with the city looking forward to the opening of a new underground railway line.

The economy in Lombardy is expected to contract by 0.3 percent in 2013, compared with 0.9 percent in Campania, according to forecasts from the Prometeia research institute. Lombardy is also expected to lead a recovery in 2014.

But even here, in one of the richest parts of the country, shopkeepers complain of falling business, unemployment is rising and companies struggling to raise credit from reluctant banks are closing at record rates.

Confidence that a new government will be able to turn the situation around is low and many fear that the region is being slowly dragged into the kind of long decline that has blighted the Mezzogiorno.

"It's a total disaster. There's an incredible level of mistrust," said steelmaker Pasini, whose company supplies many customers in the building industry and who said he had seen a sharp worsening in conditions since the beginning of the year.

"There's no market in Italy. We work mainly in the building industry and we're very connected to public works contracts. A lot of clients are suffering from a difficult credit crunch."

According to a study by the chamber of commerce for the northern towns of Monza and Brianza, more than 8,000 Italian companies went out of business last year, at least 1,861 of them in Lombardy.

A series of suicides last year by small business owners in northern Italy, driven to despair by their mounting problems, underlined the human cost of the crisis.

Politically, the election campaigning appears more lively in Brescia than in Acerra, with candidates' advertisements running continuously on television screens at the main railway station.

The federalist Northern League was born here more than 20 years ago on a wave of anger at the waste and corruption fostered by politicians from Rome and the south.

Damaged by scandals, the League is struggling to reassert itself in its home region but the rise of anti-establishment comic Beppe Grillo's 5-Star Movement has provided another outlet for voter frustration. Public disillusion with politics as a whole worries some business leaders who want to see leadership.

"I hope we don't see an excessive number of protest votes in this election," said Claudio Pinassi, managing director of Eredi Gnutti Metalli, a metalworking company.

"If you think politics is a bad thing rather than a good thing, you'll never manage to govern this country and we'll remain paralysed." (\$1 = 0.7487 euros)

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