

## **The bank/territory interaction in the competitiveness of productive systems.**

### **An introduction**

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*(Chair)*

In Italy, to date, the overcoming of the longest and most complex economic crisis since the Second World War is not as clear and certain as it is optimistically believed. The fact itself that the positive evaluations on the "conjunctural" or "structural" nature of the good GDP growth in 2016 (a few decimals above the forecasts) have involved politicians, bank leaders and trade unions, reveals that there is a strong persistence of a need for reassurance and self-persuasion, rather than a refined reading and interpretation of a complex phenomenon: an unconscious attempt to chase away the fear of unwanted developments of a complex and partly unknown reality, rather than a closing point on the past. Yet economic recovery signs are clearly visible. These signs obviously play a significant psychological role, but also foster actual economic expansion, even regardless of the controversial data on productivity in the various sectors of Italian economy and on the "quality" of the newly created jobs. The Italian economic system is generally poorly competitive – a good level of competitiveness is currently observable only in some specific sectors. In general, Italy is called to overtake several vulnerabilities on specific aspects of its productive system.

In Italy, several productive sectors are affected by serious critical aspects: among them, we can include the digital world, the technological innovation, the public sector, the banks, the whole financial system and, last but not least, the territorial efficiency. In some of these areas, though, serious and commendable government initiatives have been displayed: the "Digital Agenda", the "Industry 4.0" are excellent examples that, despite some difficulties in the implementation stages, show promising expectations. Like many other aspects of today's economic life in Italy, some cultural obstacles must be overtaken, before other kinds of practical issues can be faced: for instance, it is not yet widely accepted that the "Digital Agenda" and the "Industry 4.0" topics are nothing but two sides of the same coin. The industrial sector cannot consider the digital world cannot be seen as a mere "service" – a separate activity to be activated on demand to make production more competitive. The digital world, as well as the whole IT segment, is highly integrated within the entire industry and tertiary sectors. The exponential growth of the demand for speed in the flows of information does not merely imply that a broad band and an ultra-wide band must be realized all over the country: it also opens a huge window on the production of hardware and high-tech industrial goods, and on the necessity of technological know-how.

Some critical issues are also present in the banking and in the whole financial sectors, with special reference to its connections with the territory. In Italy the whole credit system needs to face and solve several systemic problems, that the economic crisis and the lack of productive growth have made more evident and more urgent. The theme of the financial risk is still to be faced, with poor possibilities to be solved in the short term: this problem was once limited to the so-called investment banks, but today it has reached an increasing number of banks (many of them in the so-called retail environment). The repercussions involve both increasing risks for deposits and bonds and, concerning the relationships between the banks and the territory, a progressive loss of interest in other forms of investment: it is the case, for instance, of the investments in infrastructures. It should also be noted that Eurostat's and EU Commission's indicators point out that, in Italy, the performances of the banking system are generally favorable, albeit in a more attenuated way than in other European countries. In recent years, the indebtedness of the Italian banks, or, better said, their leverage has significantly improved, while the greater availability of own assets has allowed for good progresses in terms of overall stability.

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The Italian banking system, as some contributions have mentioned, is undercapitalised. The subsequent lack of own financial resources, on the one hand, allows the banks to have higher profit rates, but, on the other, it does not grant the whole banking system absolute tranquility and security – especially in the presence of sometimes alarming percentages of NPLs. Some discussions have been promoted and some criticisms have been moved on the lack of transparency of some investments: local and national newspapers have often investigated and reported critical cases. The Italian banking system is furthermore still characterized (and possibly penalized) by a widespread structure based on local small and medium-sized companies, that are inherently poorly equipped to face the challenges of a global market.

The opportunity to reduce the number of credit institutes by increasing their average size is a recurrently spoken mantra, not only for the financial sector, but also for the whole Italian economic system; nonetheless, in many cases it is possible to observe how the interaction between the financial system and the territory, namely between the banks and the local business structure, is starting to produce interesting outcomes – although often not officially recognized, by both some local credit institutes and the whole banking system. Such interaction is constantly and sharply evolving and must be thoroughly explored, by verifying its attitudes towards rationalization and competitiveness of the credit market. For instance, the increasing commitment to brokerage (with special reference to derivatives) and purely speculative operations has led the banks to subtract resources from the productive system (the so-called utility banking): this has produced a negative impact on both the growth prospects of the local businesses and the security of investments. Many actors of the political and economic environment hope that the two components are oriented towards a substantial re-balancing, in order to increase their own securitization and, at the same time, with the aim of allocating funds that will become available to foster the growth of local resources.

As the Basel Agreements impose and the ECB's top leaders recommend, in the presence of a strong fragmentation of the banking system and of an excessive proliferation of the number of credit institutions, corporate policies must pursue incorporation and merging processes. However, with a lack appropriate and specific safeguard guidelines, the growth of the average size associated with the disappearance of typically local small-sized banks, that are, as such, very close to the local productive structure, is likely to produce a further detachment between the banks and the local systems, with their structural features and their operative peculiarities: with this reference, the debate is focused on whether the local dimension should be maintained anyway, or the adoption of an appropriate technology by the large aggregating banks could compensate the privileged relationships between the local banks and the local businesses.

This increasing insensitivity of the banking system towards the local economic structures is not, by itself, negative: there are many evident and largely positive consequences related to the growth of the average corporate size, that takes place through the acquisition of small and less competitive companies. Among other things, we could mention that larger banks tend to diminish the existing asymmetries between the power of the local economic potentates (that sometimes tend to overlap with the shareholders and the owners of the local banks) and the weakness of the bank management, especially when the size of the credit institutions is small and only involves local actors. These asymmetries have sometimes encouraged (or, at least, not hindered) poorly transparent financing operations, which in turn have sometimes fostered a growth of the NPLs, resulting in the introduction of more vulnerabilities in the local credit system. It has to be stressed that these poorly transparent processes are endogenous within small credit institutions, and have solidly contributed to discredit the Italian banking system and to create some overall system fragility.

Despite these and other aspects that should be investigated, it is my opinion that an effective interaction between the banks and the local systems could still contribute to the credit system's

success and to the creation of efficient procedures for the funding of local businesses and enterprises – obviously, provided that the banks are perfectly aware of both opportunities and limitations presented by the local systems. Furthermore, it is necessary to thoroughly define the role of the banking system within the relationships between the territory, the productive growth and the economic development – a process that still offers wide margins for the research on the mechanisms underlying the economic growth, especially given the radical transformation of the value chains following the progressive dematerialization of the economy.

An example of this is provided by the so-called “short-termism syndrome”, that some authors use to identify an important cause of the financial crisis and the difficulties in overcoming it. As can be expected, the intensive use of short-term fund deployment did not have a positive impact on the local businesses, on their potentials and on their perspectives for productive growth. Even though a trade-off relationship between the short-term investments and the infrastructural investments has not been demonstrated, the latter have dramatically dropped, mainly due to their necessity for long-term, or very long-term commitment, that the banks are nowadays often not available to grant. The resources have therefore moved towards short-term and very short-term investments, that are not necessarily more profitable, but, with high market volatility, are certainly more reassuring.

In fact, the fall in the propensity towards long-term loans has produced a negative impact on the infrastructures required by the local businesses to improve their competitive performances – for example, the renovation of physical structures on which the productivity and efficiency of the system is based, like ports, highways, home-work connections, urban traffic, airports, town planning policies, seismic prevention and the protection of the territory and its physical and functional organization, a delicate and urgent area of intervention. The crucial investments in dematerialized infrastructures, such as the ultra-wide band, the country’s digitization process, the funding for technological innovation projects, and so on have been penalized as well.

In the literature, it is perfectly known which features encourage the technological progress, the push to modernize the economy and to create innovation: belonging to large global networks rather than on geographical proximity, the coexistence and the hierarchical rank. In the past, I was able to show like one thing not only does not exclude the other, but how these two modes must interact. The main question is: what could be the role of the banking system and of the relationship between banks and businesses, within the area defined by this new discovery of the importance of the local attitudes? And, subsequently, what kind of nature must the new sensitivities for the dynamic characteristics of the territory have?

On the one hand, the concept of “network” implies the presence of advanced forms of detachment between the enterprises and the territory, of supranational corporations, of connections and flows, which in turn innervate (as origins and destinations) from specific nodes (each associated with its own characteristics, potentialities and strengths); on the other hand, if we want to discuss productive growth, we cannot disregard the local structures, the technological hubs, the apical educational institutions, the technology production, the widespread scientific culture rooted within the main metropolitan areas, the global cities and their innovative potential. In any case, if we expect them to produce the greatest possible propulsive effects on geographic spaces, we must be aware that the reticulated structures such as metropolitan areas, global cities and smart cities require relevant investments – a very crucial aspect, because these structures encompass the strongest productive potentials for economic growth. These investments must be projected with both counter-conjuncture functions, to counter the recessionary phases of the economic cycle (also in the case, recognized by many economists, of so-called long waves), and infrastructure upgrade scopes, for competitive adaptation.

Investments in the local production systems and, therefore, in its features and potentials are of crucial importance: as already mentioned, if the creation of new economic value is based on the growth of productivity and occupation, and the productivity of local economic system cannot disregard the values expressed by the geographic space and its constituent elements. A typical example is provided by tourism. In Italy, tourism is accredited to be worth of, depending on the calculation methods, 10-12% of GDP, with some highest tips (like in the case of the provinces of Bolzano and Trento, Aosta, Rimini) of almost 20% of GDP: tourism has become a strategic asset for Italy's economic growth, along with its critical aspects that could determine the success or decline of even the main tourist locations. For many local contexts, the hospitality sector currently largely integrates the individual incomes and the regional GDP.

There is no doubt that part of the success of a touristic season, is strongly linked to climate factors and favorable meteorological conditions – in other words, to factors that are "external" to tourism organization. It is also true, though, that long-term tourism growth depends to a great extent on land-structuring processes, as well as on other factors such as the effectiveness of promotional and communicative campaigns. In Italy, such processes are partly linked to public funds (even in the presence of private sponsors, like in the case of the ordinary and extraordinary maintenance of the Pompeii site, the goals can only be achieved through a direct participation of the government), but partly depend on the entrepreneurship of the private companies and of their organizational foresight. In the fields of congressional, trade fair and sport tourism, for instance, the availability of adequate structures, where the required activities can be actually carried on, is a basic condition for the formation of a specific market and its flows: such structures can be designed and realized by local administrations, individual entrepreneurs or consortium structures (the vicissitudes of football stadiums in Turin, Milan, Rome and Naples are emblematic).

For all the mentioned activities, that only represent a small percentage of those that might actually be discussed, a supportive relationship between banks, enterprises, territory and institutions is crucial – whether we are dealing with the public (local or national) sector or with individual entrepreneurs and business groups. The bank/territory relationship becomes even more interesting when a good market position is subjected to minimum market sizes, sizes that are far beyond the reach of individual companies, because the productive structure is characterized by the presence of many small-sized companies. The formation of a network of companies, an experience that is now very common across almost all of Italy's territory (an example is provided by the well-known "districts", both industrial and touristic, that have experienced different levels of success), grants – at least in the author's opinion – the Italian territory new operational opportunities, which means, for the Italian banking system, new opportunities for inclusion in the local economic processes and for growth.

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