

LE REGIONI D'EUROPA TRA IDENTITÀ LOCALI, NUOVE COMUNITÀ E DISPARITÀ TERRITORIALI

The regions of Europe among local identities,
new communities and territorial disparities

a cura di

Patrizia Lattarulo, Andrea Omizzolo,
Francesco Palermo, Vincenzo Provenzano,
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Indice

Introduzione	7
<i>Patrizia Lattarulo, Andrea Omizzolo, Francesco Palermo, Vincenzo Provenzano, Thomas Streifeneder</i>	

Parte I – L’Europa delle regioni, tra movimenti indipendentisti e richieste di autonomia

The 1 st of October and the rupture with the Spanish Constitutional legal	17
<i>Argelia Queralt Jiménez</i>	

A Multilevel Governance Perspective on Disintegrative Dynamics within EU Member States	35
<i>Patricia Popelier</i>	

Autonomia, Europa e secessione. Come stanno le cose?.....	55
<i>Francesco Palermo</i>	

Autonomia rafforzata e differenziazione: materie e risorse nelle richieste delle Regioni	77
<i>Lisa Grazzini, Patrizia Lattarulo, Marika Macchi, Alessandro Petretto</i>	

Il finanziamento del regionalismo differenziato: osservazioni sulle bozze di intesa	109
<i>Alberto Zanardi</i>	

Parte II – Le regioni europee e le disparità territoriali

Proposta di analisi <i>shift-share</i> dinamico-cumulativa al caso dell’occupazione delle metroregioni italiane (2000-2014).....	119
<i>Marco Bagliani, Paolo Feletig, Fiorenzo Ferlaino, Francesca Silvia Rota</i>	

Disparità regionali e cambiamento strutturale in Europa dopo la grande crisi del nuovo secolo.....	143
<i>Eleonora Cutrini</i>	

Gli indicatori di sviluppo sostenibile nelle regioni italiane:
indicatori, modelli e implicazioni per le politiche regionali 171
*Angela Ferruzza, Barbara Baldazzi, Luigi Costanzo, Paola Patteri,
Giovanna Tagliacozzo, Paola Ungaro*

Microcredit, regional programs and credit guarantees in Italy 203
Massimo Arnone Vincenzo Provenzano

Judicial efficiency and the location of foreign direct investment.
Evidence from Italy..... 221
Simona Comi, Mara Grasseni, Laura Resmini

Parte III – Cooperazione urbano-rurale: diversità e nuove opportunità

The diversity of urban-rural exchange. Is there still space for further
developments?..... 241
*Thomas Streifeneder, Verena Gramm, Sophia Dellantonio,
Andrea Omizzolo, Valentina Cattivelli*

Innovazione sociale e partecipazione nella produzione di cultura.
Dolom.it: un caso studio in ambito museale..... 271
Chiara Zanetti, Stefania Zardini Lacedelli, Marta Pascolini

L'agricoltura sociale in Alto Adige: un esempio di innovazione sociale
nelle aree montane italiane..... 295
Cristina Dalla Torre, Verena Gramm, Elisa Ravazzoli

Progetti di utilità pubblica e disagio locale: prove di confronto creativo
per scenari in continua evoluzione..... 319
Fabio Riva

Accessibility to services of general interest in peripheral mountain areas:
Which solutions to improve it?..... 337
Peter Laner, Valentina Cattivelli, Christian Hoffmann

Per una visione integrata del trasporto transfrontaliero nelle regioni alpine .. 357
Alberto Dianin, Federico Cavallaro

Maieutic for dialogue: connecting an argumentative approach to media-
tion and educational transactional analysis..... 379
Federico Reggio, Marina Sartor Hoffer

Parte IV – Sezione giovani

From cultural heritage to development: the role of creativity	397
<i>Silvia Cerisola</i>	
The debated nature of territorial interests in urban areas: insights from a monographic study.....	405
<i>Matteo Del Fabbro</i>	
Territorial capital and firm performance: evidence from Italian regions	411
<i>Valentina Morretta</i>	
Public Policies for Economic Development in Europe: The Conditioning Role of Local Government Institutions	419
<i>Marco Di Cataldo</i>	
Felicità e contesto istituzionale: il caso italiano	429
<i>Maria Grazia D’Apolito</i>	
Territorial Impacts of Innovative Transport Solutions.....	441
<i>Fulvio Silvestri, Pierluigi Coppola</i>	
Efficientamento energetico delle strutture ospedaliere: criteri per la partecipazione al bando POR-FESR 2014-2020	451
<i>Marco Carpinelli, Sara Macagno</i>	

Judicial efficiency and the location of foreign direct investment. Evidence from Italy

Simona Comi*, Mara Grasseni^o, Laura Resmini*

Abstract

In this paper, we explore econometrically the impact of judicial efficiency on the attractiveness to FDI of Italian municipalities. The distinctive contribution of this paper is manifold. First, we consider the efficiency of different types of judicial proceedings (i.e. enforcement of civil contracts and labour contracts) across local courts and of different judgment levels (i.e. first and second instance courts). Secondly, we consider an ideal case: Italy is a centralized country, where the same laws apply in all the national territory, but the degree of law enforcement varies considerably across different courts. Lastly, our results have interesting policy implications, since they may help in highlighting the importance of non-targeted FDI policies as factors driving the location choice of MNEs.

1. Introduction

There is a large body of literature exploring the nexus between Foreign Direct Investments (FDI) and Institutions, with quite robust results, showing that the quality of the legal, political and institutional environment is indeed a critical factor driving multinational enterprises' (MNEs) location choice. In particular, it has been demonstrated that government efficiency, security of property rights, the enforcement of contracts, as well as the lack of corruption and violence tends to generate higher flows of FDI in both advanced and developing countries (Globerman, Shapiro, 2002; Bénassy-Quéré *et al.*, 2007; Daude, Stein, 2007). Although the great majority of the extant studies focused on the role of institutions at country level, it has been recognized that institutional variance of different locations may also affect the distribution of FDI within countries (Nielsen *et al.*, 2017). Despite that, the few existing empirical analyses focus

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on a limited number of institutional quality dimensions, like tax exemptions, subsidies, and special economic zones (Oman, 2000; Head, Ries, 1996; Meyer, Nguyen, 2005). Therefore, there is room for further investigations that pay attention to a larger and more variegated set of dimensions related to the quality of local institutions.

Our paper belongs to this strand of literature. In particular, we explore whether and to what extent the geographical distribution of FDI across Italian municipalities is conditioned by the variation of the (in)efficiency of the judicial system across different territorial courts, once controlling for other location specific factors potentially able to affect foreign firms' location choice. The Italian case is interesting for several reasons. First, the Italian judicial system underperforms with respect to other advanced countries. According to recent studies, in Italy it takes an average of 1,185 days to enforce a contract, more than twice the OECD average, and about 8 years to complete a civil cause up to the Supreme court, a figure well above the OECD average of 788 days (Palumbo *et al.*, 2013). In the EU only Malta, Greece, Portugal and Cyprus are more inefficient than Italy in terms of the length of first instance proceedings (EC, 2018, p. 64). Secondly, although Italy is a centralized country with a high degree of legislative homogeneity across the national territory, it displays a large variation in judicial efficiency across courts, with the most inefficient courts located in the Southern part of the country (Peyrache, Zago, 2016). Since disputes are assigned to courts on a territorial basis, the variation in courts efficiency yields to variation in contract enforceability for firms belonging to different territorial districts. Thirdly, Italy's ability to attract FDI is quite poor with respect to other OECD and European countries (Esposito *et al.*, 2014) and the distribution of FDI across Italian regions is quite uneven, with North and Central regions hosting about 94% of foreign firms operating in Italy (ICE, 2017; cap. 4.2, p. 120-133). Thus, judicial inefficiency seems to be not only a disincentive for foreign investments at country level, but also a factor that MNEs take into consideration when deciding where to locate in Italy. To our knowledge, this is the first study attempting to understand the role that judicial efficiency may play as a factor of attractiveness of FDI at local level.

From a theoretical point of view, economic institutions matter for the economy because they shape the incentives of the economic actors; in particular, they influence investments in physical and human capital, technology, and the organization of the production process. The security of property and contractual rights are significant determinants of the speed with which economies grow. North (1990, p. 54) asserted that "the inability of societies to develop effective, low-cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment ..." since the absence of secure property and contractual rights discourages investment and specialization.

As emphasized by an increasing body of empirical studies, well-functioning judiciaries are crucial determinants of economic performance. Indeed, they promote the efficient production and allocation of goods and services by ensuring the security of property rights and the enforcement of contracts. While the former strengthens the incentives to save and invest by increasing returns from these activities (Chemin, 2012), the latter stimulate economic agents to enter into economic relationships by dissuading opportunistic behaviours and reducing transaction costs (Bae, Goyal, 2009; Qjan, Strahan, 2007). This has a positive impact on growth through various channels, like the lessening of financial constraints (Diankov *et al.*, 2008; Bae, Goyal, 2009; Laeven, Majnoni, 2005), the reduction of entry barriers (Johnson *et al.*, 2002), and the positive impact on firm size, firm creation and entrepreneurship (Kumar *et al.*, 2001; Beck *et al.* 2006; Giacomelli, Menon, 2017; Garcia-Posada, Mora-Sanguinetti, 2013; Ardagna, Lusardi, 2008). It is also worth mentioning that an efficient judicial system fosters specialization in innovative sectors (Kumar *et al.*, 2001) where relation-specific investments are more important, and changes the composition of foreign trade flows by stimulating the exports of more complex goods and the imports of less sophisticated products (Berkowitz *et al.*, 2006). Lastly, the inefficiency of the labour courts may affect both the composition of employment and labour market participation, with negative effects on productivity and capital intensity, as Gianfreda and Vallanti (2013) demonstrate. Most of these effects are still present when one considers within-country variations, as demonstrated by Laeven and Woodruff (2007) and Dougherty (2014), Garcia-Posada and Mora-Sanguinetti (2012) and Fabbri (2010), and Jappelli *et al.* (2005) in their studies concerning the relationship between judicial efficiency and local firms' performance, broadly defined, in Mexico, Spain and Italy, respectively.

To sum up, the existing literature suggests that the functioning of the judicial system plays a crucial role in shaping the contractual environment in which firms operate; therefore, it has a great impact on a large set of firms' decisions concerning investment, employment, organization and financial structure. Some of these aspects have also been considered by the literature on FDI. Indeed, FDI is an investment decision taken at firm level and many factors contribute to the final decision on whether, how and where to invest. This literature recognizes that institutions matter under different aspects. First, contract enforcement (Grossman, Helpman, 2002, 2003, 2005) and intellectual property right protection (Naghavi *et al.*, 2015) affect the international organization of production and the boundaries of multinational firms. Imperfect enforcement of contracts may also increase the uncertainty regarding future returns, and thus have a negative impact on the level of investments. Moreover, bad institutions might act as a "tax" increasing the costs of doing business in foreign environments (Daude,

Stein, 2007). This literature, although interesting and informative, has two limits, at least as far as the objective of this paper is concerned. First, as most of the literature of FDI, it focuses on cross-country patterns of FDI, without explaining how foreign firms chose the final location within a nation's boundaries. This issue is not irrelevant, since regions belonging to the same country may differ one from each other with respect to several factors, like the degree of development, the geographical position in the country (i.e. border regions, inner regions, coastal regions, etc.), and the endowments of natural and strategic resources like human capital and know-how. This implies that factors driving the location of FDI should be found at regional rather than at national level (Casi, Resmini, 2014; Basile *et al.*, 2009). Secondly, the literature on the determinants of FDI at both regional and national level is silent on the potential role played by the judicial system as a driver for FDI location. The empirical literature on the determinants of FDI, indeed, has focused mainly on the economic factors influencing the geographical distribution of investments of multinational firms, rather than on the non-economic ones.

Economic factors driving MNEs' location choice across regions includes the demand for MNEs products and services in or close to alternative possible locations; the production costs, and mainly the labour costs; proximity to potential suppliers and clients; and public policies, designed to attract directly or indirectly foreign firms (Mayer, 2004). Only recently, the role of non-economic factors in MNEs location decisions has been explored, but their relative importance has been operationalized through composite aggregate indicators (Wheeler, Mody, 1992; Daude, Stein 2007; Globerman, Shapiro, 2002), so that it is difficult to disentangle their specific effects, if existing.

This is not the first paper addressing the issue of the uneven distribution of FDI across Italian regions (Mariotti, Piscitello, 1995; Basile, 2002; 2004; Bronzini, 2004; Basile *et al.*, 2005; De Propis *et al.*, 2005; Majocchi, Presutti, 2009; Daniele, Marani, 2011). Only few studies, however, pay attention to the quality of the local institutions as a potential factor of attraction to FDI. Indeed, Mariotti and Piscitello (1995) found that information costs play a crucial role in determining the location of foreign firms across Italian provinces and that the degradation and instability of the socio-economic environment – measured by the number of illegal acts per inhabitant and the number of bankruptcies compared to the total number of companies in each Italian province – discourage inward FDI flows. This result, referring to the late 1980s, has been recently confirmed by Majocchi and Presutti (2009) and by Daniele and Marani (2011), who operationalized the quality of the socio-economic environment with a measure of the presence of the organized crime of the mafia type in each Italian province. These papers share the idea that a high degree of (organized) crimes represents an additional

factor of risk for business; thus, it represents a disincentive for foreign as well as national investments. Starting from the poor performance of Italy in the FDI tournament at European level, Basile *et al.* (2005) wondered whether Italian regions were doomed by the low quality of national policies and institutions, such as tax regime, the efficiency of the bureaucratic apparatus and legal system, and labour market regulation. Their findings support the idea that the quality of the institutions is a crucial determinant of attractiveness for foreign investors and that the relative delay of Italy in these dimensions as compared to other EU countries, discouraged foreign firms from locating in Italy.

Our paper goes beyond Basile *et al.* (2005) findings by removing the unrealistic hypothesis that the efficiency of the public institutions is constant within national boundaries. In particular, we wonder whether and to what extent the territorial variation of the efficiency of civil courts has caused, *ceteris paribus*, the uneven distribution of FDI across Italian regions. In so doing, we assess the importance of the efficiency of civil justice in general, and relative to other specific proceedings, like labour contracts and second instance courts. The former are crucial for business activities, while the second tend to weaken the enforceability of contracts in the extent to which they increase the length of a judicial proceeding. Moreover, and unlike most studies, we examine the factors attracting foreign investments at municipal level, i.e. at the finest-grained level as possible. Since local courts' jurisdictions do not systematically overlap with those of other administrative units, unlike municipalities, in doing so we do not introduce discontinuities other than contract enforcement in the distribution of FDI at territorial level (Giacomelli, Menon, 2017).

Our results prove the existence of a positive relationship between the efficiency of the legal system and MNEs' location choice across Italian municipalities. The main channels through which judicial inefficiency affects foreign firms' location choice are the enforceability of contracts not related to labour issues and first instance proceedings.

The remainder of this paper is organized as follows. The next section describes data sources and the variables, section 3 illustrates the empirical methodology, section 4 presents the results, and section 5 concludes by discussing research and policy implications of our analysis.

2. Data

In order to achieve our research objective we assembled a dataset with data on FDI at municipal level and measures of judicial efficiency at local jurisdictions (circondari) level. Data refer to the period from 2006 to 2011. Table A1 in the Statistical Appendix provides detailed variable description and information on sources.

2.1. FDI data

We measure potential inward flows of FDI by counting the number of active foreign firms across the 8091 Italian municipalities in each year of the considered period. Our source of data is the AIDA database issued by Bureau Van Dijk. AIDA has comprehensive information on all Italian companies required to file their accounts (about one million). The dataset reports financial and business information, including firms' address and the ownership structure, at both plant- and firm-level. We considered as foreign firms those firms where one or more foreign owners ultimately own more than 25.01% of shares. This information has been collected at plant-level, since we consider this unit of observation more suitable for our analysis. Eventually we ended up with a variable that proxies the stock of FDI in each municipality in any given year.

Table 1 describes the distribution of inward FDI in 2011. As shown, there is a great number of municipalities with no foreign firms (78%), while 20% of municipalities exhibits a number of foreign firms between 1 and 9. This evidence suggests that foreign firms are highly concentrated in Italy. The differential attitude to attract FDI of specific geographical areas is further confirmed by Table 2, which shows the number of municipalities hosting more than 100 foreign firms: most of them belong to northern regions, with the exception of Roma, Firenze (Centre) and Napoli (Southern Italy).

Since our estimation strategy relies on a demeaning transformation, as it will explain in details below, in Figure 1 we show the source of variation we are exploiting in order to identify our parameters, namely the variation over time of the number of foreign firms. As it can be seen, the latter has changed almost everywhere across the national territory, but the most consistent changes concentrate in municipalities belonging to Northern and Central regions of the country (Figure 1).

2.2. The judicial efficiency

We used caseflow data provided by the Italian Ministry of Justice to construct two different measures of the quality of the Italian judicial system. Before illustrating them and their geography, a brief discussion on how the judicial system works would be of some help. Civil law aims at the legal protection of rights pertaining to relations between private individuals or entities or between them and the public administration when in the exercise of its duties this adversely affects the subjective rights of another person.

Civil trials can undergo under three different level of judgment: first instance jurisdiction (lower degree), which is exercised by ordinary tribunal; second instance jurisdiction (*Corte d'Appello*) and third instance jurisdiction (*Corte di Cassazione*), which can only deals with formal aspects related to cases discussed

Table 1 – Distribution of municipalities by number of foreign firms, 2011

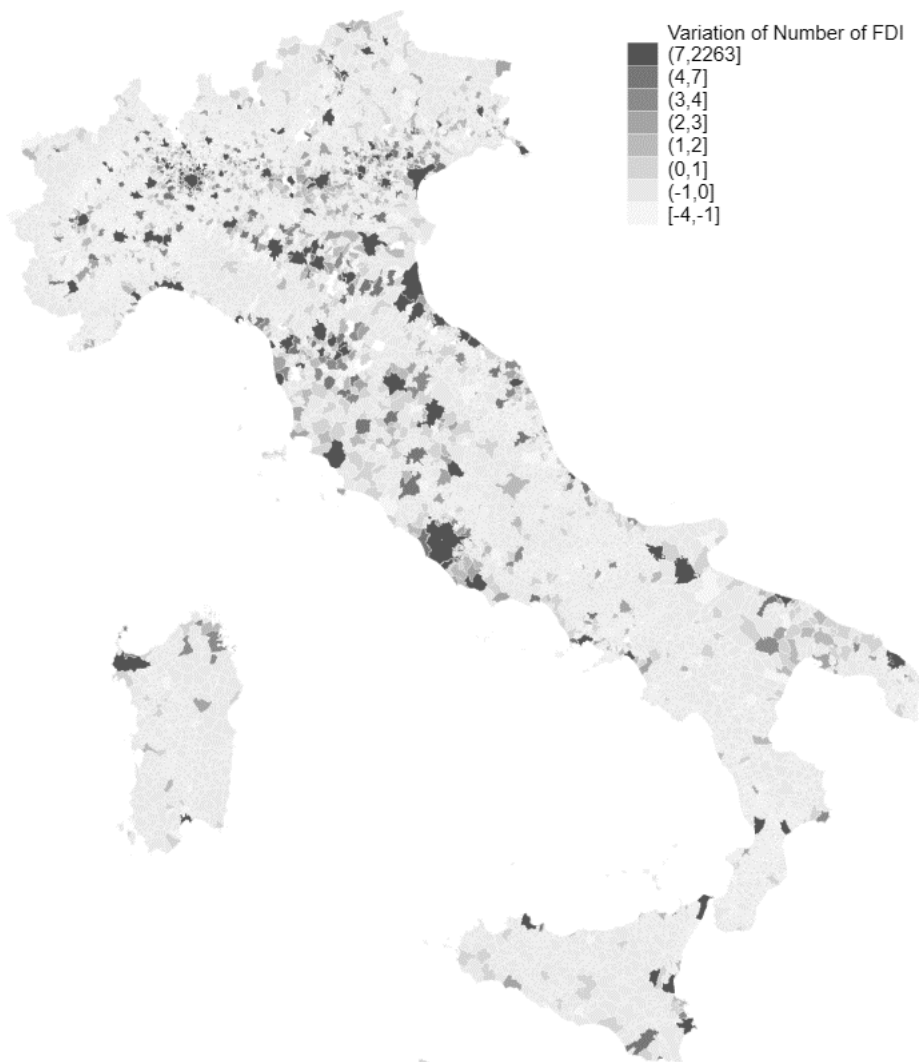
<i>Number of foreign firms</i>	<i>Number of Municipalities</i>	<i>Percentage</i>
0	6337	78.32
1-9	1616	19.97
10-49	114	1.41
50-99	13	0.16
100 +	11	0.14
N obs	8091	100

Table 2 – Municipalities with more than 100 foreign firms in 2011

<i>Municipality</i>	<i>Number of foreign firms</i>
Milano	3550
Roma	2012
Torino	297
Bolzano	181
Padova	173
Genova	160
Napoli	156
Firenze	153
Bologna	153
Brescia	144
Bergamo	128

in the previous degrees. This paper concentrated on civil trials in the lower and appeal courts, which are the most important ones. The territorial organization of the Italian judicial system is very important since it does not systematically match other administrative boundaries like provinces and regions. Indeed, in Italy there were 165 local jurisdiction areas and 110 provinces in the considered period. Civil proceedings are assigned to courts on a territorial basis and the Italian law establishes that the jurisdiction is that of the defendant's residence, unless parties provided for different agreements in the contract. As regards the proceedings that involve workers and consumers, the law establishes that the cases should be assigned according to their residence. In case of appeal, the case

Figure 1 – Variation of the Number of FDI by municipality, 2011-2006



Notes: The white lines in the map correspond to municipality boundaries. Different graduations correspond to different variation over time (2011-2006) of the number of foreign firms in each municipality. Since Italian municipalities are quite heterogenous in size, and large municipalities tend to attract more foreign firms than small ones, our dependent variable is the number of foreign firms per 100,000 inhabitants.

moves on to the upper level, the appeal court. Each local jurisdiction is embedded in one appeal court, which are 26 in total and their territorial jurisdictions (*Distretti*) are wider than those of local jurisdiction (*Circondari*).

We use two alternative measures of judicial efficiency, the first one refers to the degree of congestion of the judicial areas and is calculated as the backlog of trials pending, normalized by the number of incoming trials (Fabbri, Padula, 2004). The higher the index, the less efficient is the court. The second one refers to the average lifetime of court proceedings (Giacomelli, Menon, 2017) and is calculated as follows:

$$Lenght = \frac{P_t + P_{t+1}}{E_t + F_t} * 365$$

where P refers to pending cases at the beginning of year t , F to the new cases filed during the year and E to the cases ended that year. The idea behind the use of these indicators is straightforward: first, the congestion of the courts increase the costs of contract enforcement for firms; and, secondly, the longer it takes to resolve a dispute over a contract, the less effective is the enforcement of the contract.

We consider the degree of congestion and the average length of proceedings of both first instance and second instance courts. Moreover, we consider the congestion degree and the length of labour disputes.

Table 3 shows the worst and the best local courts in terms of length of proceedings. In five jurisdictions the length of proceedings exceeds 1,000 days, while among the best courts, the average length of proceedings remains below 200 days. As for the geography of judicial efficiency, the worst jurisdictions seem to be concentrated in the south of Italy, while the best ones in the north. It is however worth noticing that none of these jurisdictions includes municipalities particularly attractive in terms of foreign firms.

To highlight the improvement or the worsening of the efficiency of the judicial system in Italy, Figure 2 shows the variation over the period of the length of proceedings at municipality level. A darker (lighter) grey means an increase (decrease) in the average length of the trials, and a decrease (increase) in the efficiency of the judicial system. As it can be seen, huge improvements – the lighter areas – can be observed all around the country, confirming the existence of a great amount of heterogeneity in the variation over time and across the national territory of the average length of trials.

Therefore, there seems to exist a relationship between the quality of the judicial system and the location of FDI in Italy that deserves more attention. Next sections will be devoted to explore this issue in details (Figure 2).

Table 3 – Worst and Best Jurisdictions by length of proceedings, 2011

Local jurisdictions	Mean Length
<i>Least efficient:</i>	
Foggia	1542.20
Patti	1358.75
Barcellona Pozzo di Gotto	1357.35
Rossano	1102.74
Lamezia Terme	1056.81
Matera	917.90
Vibo Valentia	910.13
<i>Most efficient:</i>	
Aosta	181.03
Tortona	188.92
Mantova	199.92
Saluzzo	207.71
Bolzano	207.80
Cuneo	211.39
Alba	222.47

3. Methodology

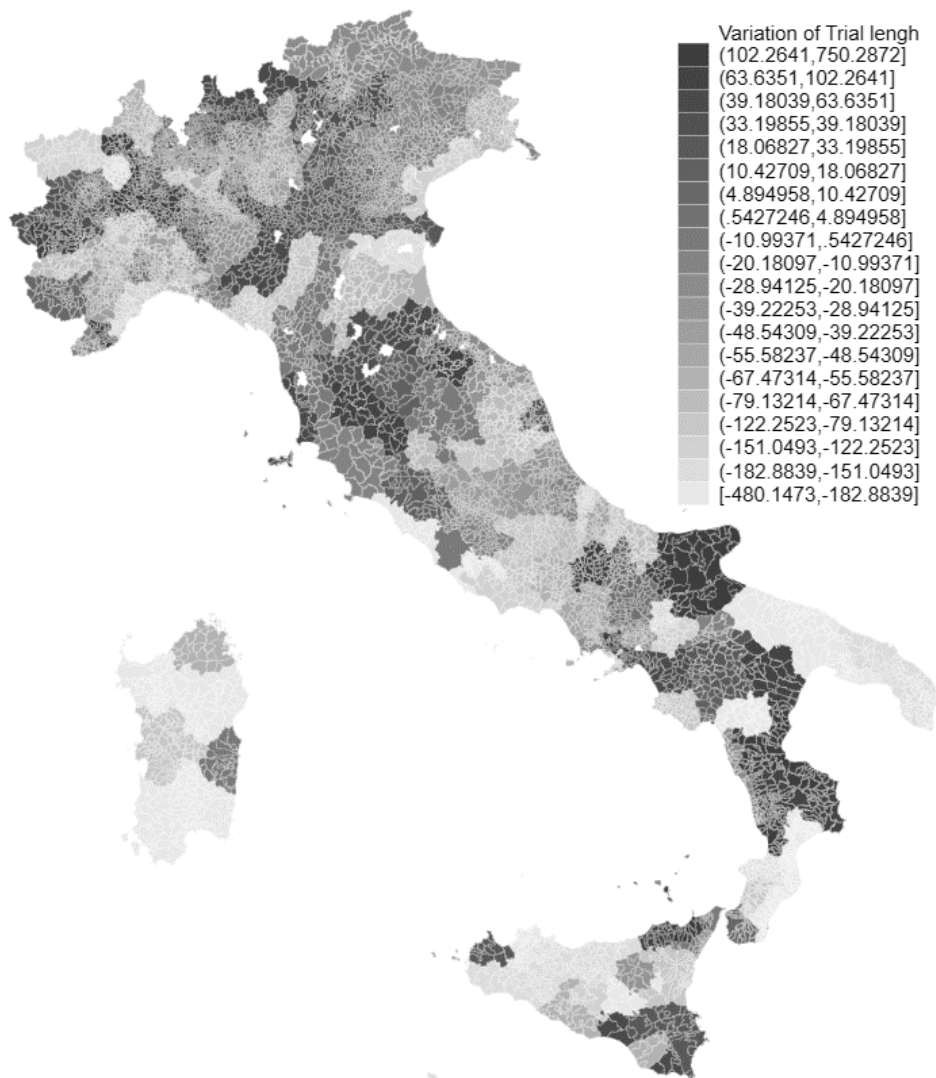
In order to achieve our research objective, we estimate the following equation:

$$y_{mjpt} = \alpha + \beta E_{jpt} + \gamma X_{mjpt} + \sum_{p=1}^p \delta t_p + \tau_t + \gamma_m + \varepsilon_{mjpt} \quad [1]$$

where y_{mjpt} is the number of foreign firms per 100,000 inhabitants in municipality m , jurisdiction j , province p at time t ; E_{jpt} is a proxy of judicial efficiency of the court in jurisdiction j and province p at time t ; X_{mjpt} is the (log) of average per capita income of municipality m , jurisdiction j , and province p at time t ; $\sum_{p=1}^p \delta t_p$ is a set of province-specific year trends, τ_t are time fixed effects (time dummies), and lastly, γ_m are municipalities fixed effect.

With this specification we are basically linking judicial efficiency to the number of foreign firms using a reduced form, after removing years and municipalities fixed effects (FE) to control for common shocks to the whole economy occurred in the considered period and average characteristics of each municipality, respectively. In so doing, we transform the model in deviations from the mean within

Figure 2 – Variation of the Length of Trials by municipality, 2011-2006



Notes: The white lines in the map correspond to municipality boundaries. Different graduations correspond to different variation over time (2011-2006) in the length of trials in each jurisdiction.

Source: based on Ministry of Justice data.

municipalities over time and this allows us to relate changes over time in the inflows of FDI to changes over time in the judicial efficiency. Furthermore, the stock of FDI is transformed into the flow of FDI, centered around the mean. This estimation method also controls for all time-constant geographical heterogeneity. In other words, this estimation method has the advantage to isolate the effect we are interested in, removing all the unobserved factors that do not change over time within each unit of analysis, i.e. municipality. It also absorbs every fixed effect at a less disaggregated geographical level, as the province or the region. Therefore, our results are to be considered as the effect of judicial efficiency on inward FDI flows, net of the effects of geographical characteristics – i.e. proximity to the sea or altitude – and of other specific location advantages, such as closeness to infrastructures, cultural, social and educational background, and crime and corruption intensity, at least in their constant-over-time component.

The asymmetric economic growth within the country could still plague our results provided that it is correlated with asymmetric changes in judicial efficiency. We deal with this potential source of bias by augmenting our specification with two different variables. First, we add the log of the average per capita income at a municipal level.¹ This variable should help our identification strategy, as it also controls for differences in aggregate economic growth of provinces and regions. Second, we include among the controls a provincial-specific trend in order to control for any other source of heterogeneity in the evolution over time of other unobserved factors.

4. Results

Table 4 reports the estimates of the effect of judicial efficiency on FDI inflows. As expected, in both specifications the two measures of court inefficiency are negative and statistically significant at the conventional level, confirming the hypothesis that a bad judicial environment is detrimental to the attractiveness of FDI. As for the magnitude of the effect, our estimates indicate that a reduction of 100 days in the average length of trials would increase the number of foreign firms of about two per million of inhabitants. It is worth noticing that, once municipality fixed effects are properly controlled for, the average income does not seem to influence the presence of foreign firms at municipality level.

In order to test the robustness of our main results, we include in the regressions the length and the congestion rate of other judicial proceedings, namely

1. The average income for each municipality was collected by *Agenzia delle Entrate*, the Italian fiscal agency. We were able to compute the total amount of income in the tax declaration at the municipality level. We then divided this amount by the population (at the end of the year), figure that can be obtained by ISTAT.

second instance proceedings and labour proceedings. The first variable accounts for the fact that an increase in the appeal rate or in the congestion of the second instance courts – which are less numerous than the first instance ones – lengthens the average duration of judicial proceedings, thus imposing additional costs on firms and further reducing the certainty of transactions and returns on investments. Therefore, it is natural to assume that the presence of inefficient appeal courts is detrimental to FDI inflows. The second variable, instead, is a direct measure of the enforceability of labour contracts. Employment proceedings are very important for business activity; extremely long judicial proceedings on worker dismissal, in fact, impose high firing costs for firms, and this may reduce the attractiveness to FDI, mainly in traditional, labour-intensive industries. The results are presented in Table 5. Two striking features emerge from it. First, the inclusion of these new variables leave our main findings almost unchanged, at least from a qualitative point of view, as indicated by column (1). Secondly, our priors on the role these alternative sources of justice may play on FDI flows are not supported by the results. In particular, the estimated coefficients of the variables measuring the inefficiency of the

Table 4 – The effect of judicial efficiency on the inflows of FDI. Different definitions of court efficiency, 2006-2011

	(1)	(2)
Length civil	-0.00193* (0.00104)	
Congestion		-0.854* (0.471)
Log average income	-2.984 (3.62)	-2.969 (3.617)
Constant	29.77 (35.48)	29.80 (35.46)
Observations	48,501	48,538
R-squared	0.040	0.040
Number of municipalities	8,091	8,091
Municipality fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
Trend by province	Yes	Yes

Notes: The dependent variable is the number of foreign firms per 100,000 inhabitants. The full sample is composed of all municipalities for which data are available. Robust standard errors clustered at court level in parentheses. ***p<0.01; **p<0.05; *p<0.1.

appeal courts are positive and statistically insignificant at the conventional levels, as shown by column (2) of Table 5. As for the inefficiency of the labour justice – shown in column (4) – the estimated coefficients, though negative, as expected, are either not statistically significant or very small, close to zero.² These results provide a first evidence that both the “labour channel” and second instance courts do not play a relevant role in foreign firms’ location decision. The enforceability of contracts other than labour ensured by first instance courts seems to be the sole channel of transmission of the effects of judicial efficiency on FDI inflows.

Lastly, we re-estimated our regression equation on two restricted samples. The first excludes municipalities with less than 5,000 inhabitants, where it is less likely that foreign firms may set up a plant because of the lack of basic public services and infrastructures. The second, instead, includes only those municipalities that hosted at least one foreign firm at the beginning of the considered period. This strategy allows us to understand whether and to what extent improvements in the efficiency of the judicial system are able to affect subsequent investments. In other words, we wonder whether foreign firms would keep on investing in locations characterized by poor contract enforceability, all else equal. Table 6 presents the results. Main estimates maintain their significance and expected sign thus confirming the idea that judicial efficiency is an important determinant of FDI inflows and its effect is higher in large municipalities and in those already hosting foreign firms.

5. Conclusions

In this paper we have explored the effect of contract enforceability through first instance courts on foreign firms location decisions. Since theory is not enough informative on the existence and the potential sign of this relationship, we have resorted to empirics to shed light on the subject and improve the existing knowledge on the effect of the quality of institutions on the distribution of FDI within countries.

We found several interesting results: first, municipalities where contract enforceability is poor attract less foreign firms than municipalities belonging to efficient jurisdictions. Secondly, contract enforceability ensured by lower level courts is the main channel through which the efficiency of the judicial system exerts its effects on inflows of FDI. Thirdly, judicial efficiency is important not only to attract new foreign firms, but mainly to embed them in the local context. Lastly, the effect of the judicial efficiency are more relevant for large rather than small municipalities.

2. Speculative explanations of this result are, first, that foreign investments in Italy are more capital- rather than labour-intensive, and secondly, that the average size of Italian firms is quite small. In both cases, labour proceedings do not represent a crucial factor in foreign firm location decisions.

Table 5 – The effect of judicial efficiency on the inflows of FDI. Different judicial level and specific contracts, 2006-2011

	(1)	(2)	(3)	(4)
Congestion trials	-0.810*			
	(0.456)			
Congestion Court of Appeal	0.674			
	(0.750)			
Length		-0.00189*		
		(0.00103)		
Length (Appeal Court)		0.00251		
		(0.00191)		
Congestion (No labour)			-0.871*	
			(0.469)	
Congestion (labour)			-0.00260	
			(0.00172)	
Length (no labour)				-0.00207**
				(0.00102)
Length (labour)				-2.41e-05***
				(3.64e-06)
Log average income	-2.918	-2.775	-2.991	-3.028
	(3.603)	(3.604)	(3.619)	(3.622)
Constant	31.53	29.31	30.06	30.29
	(35.21)	(35.37)	(35.48)	(35.50)
Observations	48,538	48,501	48,505	48,468
R-squared	0.040	0.040	0.040	0.040
Number of municipalities	8,901	8,901	8,091	8,091
Municipality fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Trend by province	Yes	Yes	Yes	Yes

Notes: The dependent variable is the number of foreign firms per 100,000 inhabitants. The full sample is composed of all municipalities for which data are available. Robust standard errors clustered at court level in parentheses. ***p<0.01; **p<0.05; *p<0.1.

Table 6 – The effect of judicial efficiency on inflows of FDI. Bigger towns and Municipalities with a positive number of foreign firms, 2006-2011

	(1)	(2)	(3)	(4)
Length civil	-0.00313* (0.00178)		-0.0217** (0.0108)	
Congestion		-1.102* (0.68)		-9.773*** (2.839)
Log average income	-2.545 (7.504)	-2.756 (7.512)	-18.32 (24.96)	-18.31 (24.69)
Constant	28.41 (74.05)	30.40 (74.14)	219.0 (248.0)	220.8 (245.6)
Observations	13,975	13,986	7,295	7,303
R-squared	0.204	0.204	0.165	0.166
Number of municipalities	2,331	2,331	2,058	2,058
Municipality fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Trend by province	Yes	Yes	Yes	Yes

Notes: The dependent variable is the number of foreign firms per 100,000. The sample used in column (1) and (2) contains only municipalities with more than 5,000 inhabitants for which data are available. The sample used in column (3) and (4) contains only municipalities with a positive number of foreign firms. Robust standard errors clustered at court level in parentheses. ***p<0.01; **p<0.05; *p<0.1.

Therefore, we can conclude that policies aiming at improving the functioning of the judicial system may increase the attractiveness to FDI of Italy and ensure a more equal distribution of foreign investment across the national territory. Our results are in line with the empirical growth literature that has emphasized the importance of the quality of institutions for economic growth (see Acemoglu *et al.*, 2001 among many others) and suggested that institutions might affect growth by stimulating not only domestic investments, but also foreign ones.

Our results, however, are preliminary and need to be improved under at least two aspects. First, we need to strengthen the identification strategy by better exploiting the variability of the quality of the judicial system at territorial level. Secondly, we think that foreign firms may have different sensitivity to judicial efficiency and that this heterogeneity depends more on the technology and knowledge-content of their productions rather than on their nationality. This assumption, if confirmed, would explain why some advanced countries (or regions) attract more knowledge-capital intensive foreign investments than others.

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Appendix

Table A1 – Descriptive statistics and Variable definition, 2011

<i>Variable</i>	<i>Definition</i>	<i>Source</i>	<i>Mean (standard deviation)</i>
Inward FDI	Number of foreign firms in each municipality	AIDA	1.711 (45.89)
number of foreign firms per 100,000 inhabitants	Number of foreign firms per 100,000 inhabitants in each municipality	AIDA and ISTAT	8.7 (3.36)
Congestion	Number of pending trials divided by incoming cases at Jurisdiction level	Ministry of Justice	1.178 (0.563)
Length	((Number of trials pending at time t + trials pending at time t+1)/ incoming trials at time t + defined trials at time t))*365	Ministry of Justice	424.17 (195.64)
Log of average income	Total amount of income from tax declarations over population (end of the year) in each municipality.	Agenzia delle Entrate	9.914 (0.145)
Pop	Population (end of the year) in each municipality	ISTAT	7336.6 (39641.8)

Efficienza della giustizia e localizzazione degli IDE in Italia

Abstract

In questo capitolo viene studiato l'impatto dell'efficienza della giustizia sulla capacità di attrazione di IDE da parte dei comuni italiani. I contributi di questo articolo alla letteratura economica sono molteplici. In primo luogo, è presa in considerazione l'efficienza dei tribunali in diverse materie di competenza dei tribunali civili, con particolare riferimento a tutto ciò che riguarda il rispetto di contratti in generale e ai procedimenti relativi al lavoro sia a livello circondariale che a livello di corte di Appello. In secondo luogo, il contributo si concentra sull'Italia che rappresenta un caso esemplare, essendo un paese fortemente centralizzato, dove la legge è uguale su tutto il territorio nazionale, ma l'efficienza con la quale è applicata, e di conseguenza la durata dei singoli procedimenti, varia enormemente tra i diversi tribunali. Infine, i nostri risultati hanno implicazioni di policy importanti, poiché sottolineano l'importanza di politiche non specifiche di attrazione degli IDE, come fattori in grado in realtà di determinare la localizzazione delle multinazionali.

