

North-South Imbalances: A Spatial General Equilibrium Approach

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Abstract. This paper builds a two-region model to analyze the determinants of dualism between areas, with special attention to Italy's *Mezzogiorno*. Building on Roback's general equilibrium framework, firms and workers are mobile across areas. Regions have different features, affecting both local firms' productivity and resident workers' welfare. We consider two types of workers, skilled and unskilled (wages are determined by national unions) and extend the basic version of the model to consider the role of mobility costs, transfer payments to households, territorial differentiation in unions' wage policy, subsidies to firms, and finally the role of skilled-biased technical change. We obtain some implications for North-South differentials concerning: (i) wages, (ii) unemployment, (iii) rents and (iv) local skilled and unskilled equilibrium populations, which are broadly consistent with stylized facts for Italy and with some preliminary evidence.