

INTRODUCTION

TWENTY-SEVEN YEARS AGO, under the generous and energetic tutelage of Fabio Luca Cavazza, a group of foreign scholars came to Italy as first-time students of the “Italian case.” We shared our puzzlement over this complex country with a group of more seasoned and distinguished Italians. In the essays we wrote together for the 1974 *Il Caso Italiano*, we tried to analyze a society in which economic dynamism coexisted with stalemated and polarized politics.¹ Here was a country with a rate of economic growth second to none in Europe throughout the postwar years.² But at the same time there was a political system heavy with bureaucracy, tangled in clientalism, and, despite rising radicalism and protest, apparently unable to reform itself.

These politics entailed, as Cavazza put it—more bitterly than an outsider might have dared—“an inexhaustible appropriation of ever larger shares of the country’s production.”³ At the level of central government, we found stagnation and the exploitation of public office and public space for partisan ends. At the local and regional levels, we saw a society riven by the dense and mutually exclusive subcultures of the Catholic Church and the Communist Party. The political stability of the country seemed to depend on preserving social and economic traditionalism: on a reservoir of electors that the backward South provided for the parties of government, and on the survival of a large number of small and medium-sized enterprises that buffered the shocks of rapid growth by absorbing workers who could not otherwise have found regular employment.⁴ From the perspective of the mid-1970s, the economic success of Italy seemed to show that politics was irrelevant.

In *Il Caso Italiano*, the authors projected the divide between economic dynamism and political traditionalism into an indefinite future. What we failed to see in 1974 was a deep transformation then taking place in Italy’s politics, economy, and society. At the national level, partisan exploitation of the public sector, rising social conflict, and extremist terrorism combined to produce political immobility. But at the local level, new “industrial districts” were using local political institutions to stabilize and sustain new forms of coordination and cooperation in small- and medium-scale industry.⁵ National politics did play some role in these changes: for example, labor legislation in the 1970s strengthened the hand of unions by allowing them to organize workers in smaller firms.⁶ This accelerated a shift away from the postwar economic regime in which large firms transferred work to small- and medium-scale enterprises as a way of reducing wages, social charges, and taxes.

Still, the lion’s share of the political initiatives came at the local level. There, parties, the Catholic Church and its collateral organizations, governments, unions, and trade associations entered into new forms of negotiation, bargaining over the creation of collective goods that enabled small and medium-sized specialized manufacturers to raise productivity and quality through cooperation. Ironically, this political transformation took place in Catholic and Communist strongholds—indeed, in the same regions where large firms had exploited smaller-scale enterprises as highly dependent suppliers and where employees in smaller firms had provided a more flexible, cheaper, and more docile workforce.⁷ The new industrial districts of the “third Italy” (Emilia-Romagna, Veneto, Tuscany, Umbria, and the Marche) grew on terrain that had been devastated in past political struggles between fascism and anti-fascism, clericalism and anti-clericalism, communism and anti-communism. Far from building on an ancient heritage of political trust and cooperation, as Robert Putnam suggested in an influential analysis, the new localism of the 1970s succeeded by *overcoming* a recent past of violent social conflict and strife.⁸

ITALY'S INDUSTRIAL DISTRICTS

Industrial districts are geographically defined production systems characterized by a large number of small and medium-sized firms that are involved in various stages of the production process in a particular industry. Building on the work of Fabio Sforzi, Sebastiano Brusco and Sergio Paba have compared both the numbers and the location patterns of the districts in Italy between 1951 and 1991.⁹ Brusco and Papa define districts as “local labor markets” (in which people live within commuting distance of their workplaces) that meet four criteria: 1) manufacturing employment is higher than the national average; 2) the share of industrial workers in firms with fewer than 250 employees is higher than average; 3) the share of the workforce in at least one sector of industrial specialization is higher than the national average; and 4) in that sector (or sectors), the number of workers employed in firms with fewer than 250 employees is higher than average.¹⁰ Using this definition to analyze census data, they found a great increase in the number of districts and the number of workers employed in them. In 1951, there were 149 districts employing about 360,000 people. By 1991, the number of districts had increased to 238 and the number of employees to 1.7 million. Equally important, Brusco and Paba found that in 1951, proto-industrial districts were distributed more or less evenly across the Italian peninsula (including the Mezzogiorno)—but by 1971, the map was completely different. All the districts were located in the center and northeast regions of the country. In fact, illustrating a process of “territorial contagion,” those new districts that were established between 1971 and 1991 were often located next to existing districts. At the same time, there were substantial changes in their sectoral specialization and economic fortunes. Between 1951 and 1991, new districts were founded and old ones disappeared. Districts changed specializations, as in the case of Carpi, which in its early years concentrated in woodworking and furniture, turning later to knitwear and apparel.¹¹

Because of the economic dynamism these districts have displayed, they have been analyzed and celebrated in a wide-ranging literature that portrays them as prototypes of “the new competition,” exemplars of “best practice” in today’s post-Fordist world of segmented demand.¹² According to this literature, the industrial districts build on fragments of an older order of small, independent, family-owned enterprises, on legacies of artisanal skill, self-discipline, and professional pride.¹³ Whatever their historical origins—and there is a major debate over this—the districts as they had come to function by the end of the 1980s were in fact new social constructions.¹⁴

The distinctive elements in the configuration of the industrial districts are quite different from the socioeconomic relationships between the old small-scale firms and their workers and the large firms whose dependent subcontractors they had been. Often the distinctive district configuration appeared in the wake of the breakup of a large firm or firms in the region.¹⁵ Yet despite differences, all districts display similarities along three dimensions. First, within the districts there is a *division of labor* among firms, which promotes high levels of flexibility and productivity. Because firms within the districts often specialize in one phase of the production process and through their subcontracting networks aggregate orders from several other local firms, they are able to invest in new capital equipment and rapidly amortize these investments. Flexible relations among local firms are not mirrored in workplace practices within them. Instead, because of the specialization in phases of production by district firms, work is often organized in highly specialized and narrow tasks, conducted by long-term and highly skilled employees. This, too, enhances the productivity of district-based firms.

A second feature of the districts is a distinctive *milieu* that includes the local institutional infrastructure (i.e., local banks, trade associations, training institutes, and collaborative research and development facilities) as well as more “cultural” attributes and practices (i.e., craft traditions, “trust” among firms and between workers and managers, class mobility, etc.).

A final feature underlying the districts are the *networks*—both horizontal ties that provide individual firms with up-to-date information on technological innovations and market shifts and the forward and backward linkages that provide the district as a whole with considerable market power in purchasing raw materials and distributing finished goods. Taken together, these three features create a set of competitive advantages for firms operating within the districts.

Because of these characteristics, the firms in industrial districts perform in ways that can only be accounted for by their being part of the district—and measurably better than “non-district” firms of the same size and technology in the same product markets. For example, L. Federico Signorini compared textile firms located in the Biella and Prato districts with textile firms not located within an industrial district and found significant differences in performance.¹⁶ Profit rates, as indicated by return on investment (ROI), were, on average, five points higher for district firms than for “isolated” firms. Profitability was not due to lower labor costs (per capita labor costs were 10–20 percent higher in district firms) but rather to greater labor productivity rates, which averaged between 12 and 26 percent higher than in isolated textile firms.¹⁷

In a series of follow-up studies aimed at measuring the “district effect,” researchers from the Banca d’Italia reported that “over the period 1982–95, profitability—as measured by Return on Investments (ROI) and Return on Equity (ROE)—was always higher in industrial district firms.” In 1995, ROI was higher in industrial district firms by 2 points and ROE by more than 4 points. Labor productivity (measured by per capita value added) was also greater in industrial district firms in most sectors.¹⁸ An econometric analysis for 1991–1995 indicates a “positive and statistically significant relationship between efficiency and location in a district for firms in traditional sectors.”¹⁹

In addition to the productivity and profitability edge of district-based firms, studies indicate that district-based firms are more likely to export than non-district-based firms. Marco Fortis and his colleagues at the Catholic University in Milan and the Research Office of Montedison analyzed the industries behind the recent success of “Made in Italy” in export markets.²⁰ They found that Italy’s leading export industries were primarily composed of small and medium-sized firms located in various industrial districts. Among these district-based industries, Italian producers were the world export leaders in a variety of sectors including yarns and textiles, hosiery, eyeglasses, shoes, ceramic tiles, furniture, some types of machine tools, and other consumer goods.²¹ This export performance continued throughout the 1990s, although the lira appreciated and there was an economic downturn following the Asian crisis in 1997. Another study estimates that in 1995, the districts produced some 22 percent of Italian exports (with much larger shares of exports in particular sectors: 66 percent of textiles, 37 percent of apparel, and 34 percent of all furniture exports came from district production).²² This share continues to rise, despite the growing competition from other European producers and from Asia.

In an intellectual and policy-making context dominated by theories that assumed that large-scale mass production of standardized commodities for large homogenous markets was the key to economic productivity and growth, the “discovery” of the Italian industrial districts aroused extraordinary attention. The districts excited the interest of social scientists and policymakers in Italy and abroad for several reasons: first, because they seemed to demonstrate the viability of alternative models of economic success and their prospects even in advanced industrial countries. Second, the industrial districts showed that certain kinds of small firms and specializations could survive in a world of rapid technological change and growing international competition. Indeed, these networks of cooperating and competing small producers seemed especially versatile at achieving what large-scale “Fordist” industries could not do well: satisfying consumer demand in affluent societies for more diverse and higher-quality goods. The “discovery” of the Italian

industrial district, like that of the Japanese production system, was important because it challenged prevailing assumptions about how societies gained competitive advantage.

Finally, the Italian industrial districts attracted interest because they were seen both as alternatives to large-scale modes of production and as more humanly satisfying forms of social order. In contrast to the inequalities of income and power and the steeply hierarchical authority ladders of the Fordist system, the industrial districts represented, at least in the eyes of some of their observers, a more egalitarian set of arrangements, with more cooperative relations between labor and capital.²³ These high-wage, skilled jobs and collaborative employer-worker relations had, moreover, been created in zones previously characterized by highly exploitative social relations in the countryside, in the workplace, and in widely diffused home-based putting-out systems.²⁴ In this way, the industrial districts seemed to reveal transformative possibilities within capitalism and the potential for a social system that was both more productive and more just.

After the first wave of research on the Italian districts, scholars set out to find such districts in other advanced and developing countries and policymakers began to experiment with institutional arrangements and incentives that might give birth to districts on new terrain.²⁵ The results of these efforts were relatively meager. A number of other candidate districts were identified outside Italy. The efforts of policymakers to deliberately create them proved futile. While territorial clusters of innovative enterprises, like Silicon Valley and Silicon Glen, or science parks like Taiwan's Hsinchu were found to share some properties of the Italian industrial districts, still, the better the high-tech zones were understood, the greater the conceptual stretch required to see them as resembling the Italian districts.

Today, interest in the third Italy lies less in the evidence it may provide about viable alternatives to economic development based on large-scale, vertically integrated production. We are in a period of widespread deverticalization of enterprises and the reconstruction of capitalist economies in global networks that link firms to their suppliers and customers across national borders.²⁶ The economic gains of reorganizing production outside vertically integrated large companies are no longer the issue. Rather, the question is whether networked production that is embedded in sociopolitical institutions of economic activity in territorially based proximity still confers special strength in an era of globalization. In other words, in an age when firms can theoretically produce (or have produced) anything, anywhere, can the Italian industrial districts survive?

ECONOMIC EMBEDDEDNESS IN AN ERA OF GLOBALIZATION

At the beginning of the 1990s, Michel Albert's *Capitalism vs. Capitalism* launched a debate over the social foundations of economic performance. Albert's book, which drew broad-brushed sketches of "Anglo-American" and "Nippo-Rhenish" models, was followed by a wave of research on the specifics of German, Japanese, Italian, French, and other models.²⁷ The common intuition underlying all of these contributions is that the economic performance of firms depends on social resources that the firms do not themselves create. As Wolfgang Streeck argues, firms are "social institutions, not just networks of private contracts or the property of their shareholders. Their internal order is a matter of public interest and is subject to extensive social regulation, by law and industrial agreement."²⁸ He describes the social and organized character of capital and capital markets. This means that even firms in the same sectors, using the same technologies and producing the same products, will differ systematically across societies according to the kinds of resources those societies provide.

The “varieties of capitalism” literature sees more than one kind of industrial society and believes that the different institutional configurations, or production regimes, generate systematically different micro-behaviors. From institutional configurations and differences in micro-behaviors these scholars deduce a theory of comparative institutional advantage. In this perspective, different production regimes, or different capitalisms, should be good at solving different kinds of coordination and production problems and hence over time should come to specialize in and excel in those activities.

The question arises of whether these varieties of capitalism, each with distinctive assets and weaknesses, are equally resilient in an open international economy. First, one may ask whether the characteristics of the new economy—however conceptualized—play to the strengths of some models of capitalism more than others. The American economy, with flexible labor markets, arm’s-length relations between investors and industry, research and development systems that favor radical change rather than incremental process improvements, well-developed financial markets, and so forth, might be better able to respond to global competition than, for example, the German or Japanese economies. Though there are many claims made along these lines, the evidence is far from clear. While one or another variety of capitalism might do better at particular economic conjunctures, or at solving particular kinds of innovation, production, or distribution problems, there is no compelling reason to believe that any one has a clear economic superiority across the board over time.

There is a second issue as well. If one believes that economic institutions depend on specific social resources, then globalization might differentially affect models of capitalism by undermining a society’s capability of reproducing those resources. Because the embedded networks on which the Italian districts are founded appear to be particularly vulnerable to the pressures of globalization, they constitute a kind of critical case for the understanding of the evolution of capitalism. Unlike the Silicon Valleys and Hsinchu Parks, the Italian industrial districts have no special access to highly concentrated technological and scientific resources. They do not function as communities that connect past and present insiders and outsiders, as Silicon Valley and Hsinchu Park do, bringing together native, immigrant, and repatriated engineers and entrepreneurs, combining the strengths of proximity and extension across boundaries.²⁹ The principal products of Italian districts are consumer goods like those that are being manufactured today at low cost and at increasingly high levels of quality in the low-wage economies of Eastern Europe and Asia.

When one sees the fine garments being turned out in some of the Hong-Kong owned plants in China by workers earning a small fraction of Italian wages, one wonders how long Carpi can hold out.³⁰ Conversely, if it turns out that Italian small- and medium-scale district-based enterprises can prosper in global competition even in industries like garments and ceramic tiles, then we need to revise expectations about the vulnerability of territorially embedded economic arrangements. The future of small- and medium-scale Italian firms under globalization matters not only to Italians. It is a sensitive indicator of the resilience of economies built on socially valued institutions of proximity, at a time when new communication and transportation technologies have lowered borders and distance as barriers.

To address these issues, we have been conducting interviews and factory visits in several of Italy’s industrial districts, working with our Italian colleagues Enzo Rullani and Arnaldo Camuffo of Ca’ Foscari University in Venice. What follows is preliminary and tentative—but it does raise questions about the supposedly inevitable effects of globalization on nationally distinctive production regimes.

REVISITING THE DISTRICTS

How is globalization affecting the districts? One might anticipate that globalization, by increasing competition with producers outside Italy, either through trade or through investments by Italian firms abroad, would induce greater elasticity of demand for labor in the districts. This would cause either wage stagnation or rising unemployment in the districts. But in fact, unemployment has remained very low in the districts compared not only with the rest of Italy, but also with other European societies. In Italy as a whole, unemployment rates remained virtually unchanged—averaging about 11 percent—throughout the 1990s.³¹ In the provinces where industrial districts have been strong, unemployment levels in 1998 were about one-third the national average: 4.3 percent in Biella, 3.4 percent in Belluno, 3.4 percent in Reggio Emilia and Treviso, 4.7 percent in Modena. In comparison, unemployment rates in France were about 10 percent, in Germany 8.5 percent, and in the United Kingdom 5.5 percent.

Comparing wage levels of firms in the districts with those of firms not located in districts is difficult, given differences in patterns of labor-force participation for the districts and the rest of Italy. In the districts, individuals often begin work at an earlier age and with less formal education and frequently leave jobs in mid-career to start their own firms. A Bank of Italy study found that compensation for manufacturing workers employed by firms located within the districts was, on average, higher than for similar workers employed in similar firms outside the districts.³² In our interviews with various trade-union leaders in the various districts, no one complained about declining wages or growing unemployment. If anything, they worried about how best to integrate newly recruited (often foreign) workers into their communities.

A second way in which one might suppose globalization would affect the industrial districts is through capital mobility. Foreign multinationals eager to buy local companies might distort traditional networks and practices.³³ In each of the districts we visited in 1999 and 2000 in Emilia-Romagna, Veneto, and Biella, we indeed found foreign capital at work—but the presence of foreign multinationals is not overwhelming. The examples observers cited five years ago—Tetrapak in Bologna, Nike in Montebelluno—are the same examples cited today. Moreover, to the extent that larger firms are present within the districts, it appears that they play a positive role, introducing technological innovation and expanding existing markets for their smaller-sized neighbors.³⁴ Ownership in the districts remains overwhelmingly in local hands.

Finally, and perhaps most important, one might predict that globalization would create incentives for district firms to change themselves. This might occur through the reorganization of a firm or through the relocation of a significant part of the firm's activities outside the district. If larger and more successful firms tried to develop and control a larger number of functions in-house, they might reduce their interdependence on other firms in the district. In our interviews and field visits, we did find examples of firms shifting toward greater vertical integration. But there is not enough evidence to conclude that these examples represent a trend or that the districts are moving away from their distinctive "specialization by phases." If anything, Signorini's research on the Biella and Prato districts illustrates that firms in these two textile clusters are less vertically integrated than textile firms not embedded in districts.³⁵

Observers of the districts are concerned about another kind of reorganization in response to globalization. Relationships among firms that had been structured as horizontal networks might shift to a more hierarchical pattern in which larger firms would dominate smaller suppliers. Brusco and Paba warn that "the district risks being smothered when a single company with a big brand name and a big turnover—whether a firm that has grown up in the district or moved in recently—gradually seduces the remaining firms into becoming its subcontractors and changes the system of small firms into a production system tightly linked to its own global strategy."³⁶ But

there is scant evidence of such a hierarchical reconfiguration today. In all of the districts we visited, local interdependencies and horizontal ties continued to be the norm. Even in certain districts, like the eyeglass cluster of Agordo, where a leading firm like Luxottica was growing at a pace unparalleled by any of the other local firms, this growth did not appear to be at the expense of other local producers or of the basic underlying relations of the district as a whole.³⁷ Signorini concludes: “Certainly such phenomena have occurred in particular districts and at particular moments; in some cases they can lead to the disappearance of the district as we know it; but if there is a general tendency, it’s not evident.”³⁸

DELOCALIZATION OF PRODUCTION

The more evident danger is the relocation of activities outside the district, particularly in Central East Europe (CEE). Since the fall of the Berlin Wall, Italian firms have been major investors in CEE, surpassed only by German and American investors.³⁹ But districts differ greatly in how much money is invested abroad. In Emilia-Romagna, firms seem relatively uninvolved in relocation, while in the Veneto, there has been massive (although not systematically documented) shifting out of production. In one city in Romania—Timisoara—alone, there are hundreds of entrepreneurs from the Veneto who have opened businesses over the past ten years. The local business association of Vicenza has a special office dedicated to helping local firms set up operations in Romania. It would be fascinating to understand why firms in some districts have been so much more aggressive in moving activities out of Italy than firms in other districts. The differences in the internal organization of the districts that Locke has described in his previous work may well correspond to a greater or lesser propensity to seek solutions outside the district. But this is a hypothesis we have yet to explore.

Here, however, we wish to focus on another important contrast: between how much production remains at home in even those districts in the Veneto that have been most active in foreign direct investment, and how little production remains at home in other societies like Hong Kong and Taiwan, which, like the Italian districts, specialize in the production of consumer goods in relatively traditional industrial sectors.⁴⁰ Consider a product once manufactured both in Hong Kong and in northern Italy—eyeglass frames. Today, Hong Kong optical manufacturers have moved almost all their manufacturing to China, while the Italian producers of eyeglasses, who make a quarter of the world’s glasses and three-quarters of the brand-name eyeglasses in the world, still rely largely on production in the districts. The largest of the Italian district firms, Luxottica, described dismantling the U.S. plants of the recently acquired Ray-Ban firm and reassembling the equipment in Italy. Luxottica is also moving production that had been outsourced to China back to Italy.

Is it that the geographic and cultural distances between Hong Kong and Taiwan, on one side, and the countries to which they are relocating their economic activities (China, Indonesia, Malaysia, Vietnam), on the other, are less than Italy’s cultural distance from Central East Europe? This explanation might account for levels of outsourcing from Hong Kong to Guangdong in southern China, but it can hardly explain all. Taiwanese inputs, capital, and managers being put to work in China need to make a lengthy detour via Hong Kong or some other third country en route to China, because of the politics of cross-strait relationships. In contrast, air and road links between northern Italy and CEE are relatively swift and good. A businessperson can fly from Venice to Timisoara, Romania, in three hours.

Is it that the products made in the districts, although they are consumer goods like those once made in Hong Kong and Taiwan, are somehow different—perhaps of higher quality? Or more fashionable? There is undoubtedly some truth to this, and the kinds of production that have

completely moved out of the districts—like Montebelluno’s athletic shoes and Biella’s cotton underwear and T-shirts—are more standard goods than fashion items. But the pattern is a puzzle. A firm like Benetton still produces 90 percent of its goods in the region, while its foreign counterparts—the Gap, the Limited, Marks and Spencer—produce little in their own home societies. A firm like Fedon (located in Vallesella di Cadore) that designs and manufactures eyeglass cases—hardly a high-tech or even a high-fashion item—makes a fifth of the world’s eyeglass cases. It has opened a plant in Slovenia where it turns out some simple models, and a plant in China, which does 0.15 percent of Fedon’s total production. But 400 of Fedon’s 460 employees are still working in Italy. If the distinctiveness of the products made in the districts has to do with being sold under prestigious brand names, then we still have to explain why the district firms lease the brand names (for example, Luxottica leases names like Armani, Chanel, and Bulgari to put on its frames) and are able to capture a significant part of the rents of designer label sales, while Hong Kong and Taiwan firms produce to order from foreign companies and claim not to realize higher margins on their top-of-the-line labels.

The differences between the patterns of globalization of firms in the Italian districts and those of foreign counterparts do not seem to come down to geographic or cultural barriers to overseas production or to the nature of the product markets in which they compete. Rather, as one looks in finer-grained detail at the decisions of Italian district firms about operations out of the district, it seems as if globalization serves a different set of objectives for the Italian firms than for their foreign counterparts. To be sure, the managers of the district firms listed some of the reasons for delocalization that are prominent in the reasoning of firms elsewhere: reducing labor costs, expanding the pool of workers, and gaining access to closed markets such as China and Brazil. But even when these factors were cited, they were often in virtually the same breath discounted. Those who mentioned lower labor costs in CEE or China were usually quick to point out that these overseas operations require more supervisors and many highly paid expatriate managers. One manager estimated that he needed two supervisors per hundred workers in Italy and five per hundred workers in China. The Italian foremen he sent to the China plants cost three times as much to employ in China as in Italy. When all labor costs—the wages of managerial personnel as well as those of production workers—are added up, the apparent savings on labor virtually disappear. Those who had opened plants abroad in order to gain market access often acknowledged that they had overestimated the size of these new markets. Often, repatriating capital was difficult.

The disappointing results of foreign production did not discourage most of our respondents. Most district firms that have opened plants outside of Italy have done so in order to expand—and not replace—local production capacity. The activities abroad were conceived as complementary to the production that continues in the district.⁴¹ The character of the foreign activities might also offer different kinds of complementarity. Sometimes the foreign site allowed the district firm to continue a low-skill, low-margin activity that would no longer be profitable in Italy, given prevalent wages and the absence of local customers. A typical example was a firm that made cashmere and silk yarns in Italy and “regenerated cotton” yarn (i.e., from reprocessed rags) in Poland. There is little market in Italy for this cotton yarn anymore, and the operation is relatively simple and labor intensive. Wages in Italy are 11 times higher than wages in Poland; overall, labor amounts to 30 percent of the costs in Italy and only 3 percent in Poland. Without the possibility of producing regenerated cotton yarn in CEE, the firm would have closed this line of production. By preserving it, the company has broadened its product range, thus buffering itself against perturbations in any single part of its line.

Complementarity can also mean producing abroad at lower cost a component for a good that will be finished in Italy. For example, a ski boot maker explained that the hard plastic shell of the

boot is made in Italy, because plastic molding and die-making techniques are difficult and involve trade secrets they wish to keep “in-house.” Plastic molding, decoration, and assembly are done in Italy, and require ten minutes of labor. The cutting of fabric and assembling of the liner take twenty-one minutes of labor and are done in Romania, where labor is dramatically cheaper. The lead time for products in their Romanian plants is a month; in their China plants, three months. So the only products they make in China are ones with large batches and long runs. China and Romania thus serve different functions in this firm’s globalization strategies. Romania allows them to lower the cost of a boot that is still produced in Italy; China allows them to create a medium-priced boot business that is a new one for the company. As we look at firms like this, the surprise is not that some activities move out, but that so much remains.

AN ITALIAN ROAD TO GLOBALIZATION?

Some observers of the districts see the phenomena we have just described as evidence not of a distinctive response to globalization, but rather of a lagging response. These critics hypothesize that the districts have forestalled the inevitable by setting up operations in Central East Europe. Today, their capabilities for production abroad may be limited to making standard goods that require less skilled labor than the products they continue to turn out in Italy. But this may be only a first step. As the capabilities of foreign plants rise—and as competition grows with low-wage countries—the balance may tip. Operations abroad will then expand, hollowing out the districts. Perhaps company headquarters will remain in the districts, along with product development and marketing. But manufacturing and the activities closely associated with it, like tool- and die-making and programming, will move to lower-wage countries outside of Italy.

In this view, globalization pushes all firms that compete in the same sector toward the same set of “best practices” and toward the same cost structure. If this is the case, then the lag of the Italian districts would have heavy consequences. As other societies have exported the manufacture of traditional products, they have moved into high-tech products and services. This shift requires considerable social infrastructure. Large-scale investments need to be made in research and development, universities, and local institutions. Perhaps blinded by success, the districts have done little to prepare for such a shift. Investments in the districts appear to be concentrated on upgrading and incremental innovation in the same traditional product lines. From this perspective, the policy of many districts may have cost them the opportunity to move rapidly into the “new economy.”

Our view is a different one. We see the districts as resilient and capable of absorbing, even if not now of creating, new information technologies. The future of the districts may lie not in some improbable leap from today’s industries to a high-technology frontier, but in incorporating new technology and services into traditional sectors. Integrating great manufacturing and design with new information technologies creates valuable products. To make them, the firms need to stick to the districts for the same reasons that information technology firms stick to Silicon Valley or new biotech firms cluster around universities: to gain access to information that is only transmitted through social relationships, to incorporate this knowledge into new high-value-added products, and to find a highly skilled workforce. The information that the firms in the districts obtain through collocation, like the information that Silicon Valley and Cambridge biotech firms seek by locating in clusters, is generated by exchange between social actors. Even in industries with relatively labor-intensive production, the gains from lowering labor costs are outweighed by the advantages of remaining located where new ideas emerge and are debated, where the experimentation of others constantly offers lessons, and where new trends and directions can be instantly felt.

Having observed the American and Japanese economies at the end of the 1980s and then, again, in the 1990s has made us wary of predicting long-term continuities and stability. But what is evident in the districts today is a pattern of adaptation that builds on the “old economy” and does not displace it. There is a striking contrast between the responses to globalization of the Italian firms, on one side, and the producers of consumer goods in high-wage Asian economies like Hong Kong and Taiwan on the other. Where the latter have moved the lion’s share of their traditional industries into China or other low-wage countries and reinvested at home in electronics, software, and telecommunications, the Italians have upgraded and transformed their industries. The diversities of industrial societies do not disappear with globalization, but are reconstructed and transformed. What we learn from the Italian district experience is that different patterns of response to globalization are not mere way stations along a common route, but may represent deep and enduring forms of social and economic organization.

ENDNOTES

¹Fabio Luca Cavazza and Stephen R. Graubard, eds., *Il Caso Italiano* (Milan: Garzanti, 1974).

²Charles Kindleberger, “Economia al bivio,” in *ibid.*, 240–268.

³Cavazza, “Logica italiana della sicurezza,” in *ibid.*, 22.

⁴Suzanne Berger, “Uso politico e sopravvivenza dei ceti in declino,” in *ibid.*, 291–313.

⁵Richard M. Locke, *Remaking the Italian Economy* (Ithaca: Cornell University Press, 1995).

⁶*Ibid.*, chap. 3; and Linda Weiss, *Creating Capitalism* (Oxford: Basil Blackwell, 1988.)

⁷Arnaldo Bagnasco, *Tre Italie: la problematica territoriale dello sviluppo italiano* (Bologna: Il Mulino, 1977); Carlo Trigilia, “Le subculture politiche territoriali,” *Fondazione Giangiacomo Feltrinelli Quaderni* (1981): 3–172. Carlo Trigilia, *Grandi partiti e piccole imprese* (Bologna: Il Mulino, 1986).

⁸Robert D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993). There is a vast literature on class conflict and the rise of fascism in regions like Emilia-Romagna and Reggio Emilia that today are the heartland of the industrial districts and “civic Italy.” See, for example, Renato Zangheri, *Lotte agrarie in Italia* (Milan: Feltrinelli, 1960).

⁹Sebastiano Brusco and Sergio Paba, “Per una storia dei distretti industriali italiani dal secondo dopoguerra agli anni novanta,” in Fabrizio Barca, ed., *Storia del capitalismo Italiano* (Rome: Donzelli, 1997), 265–333. They build on classifications developed by Fabio Sforzi, “The Quantitative Importance of Marshallian Industrial Districts in the Italian Economy,” in Frank Pyke, Giacomo Becattini, and Werner Sengenberger, eds., *Industrial Districts and Interfirm Cooperation in Italy* (Geneva: International Institute for Labour Studies, 1990).

¹⁰Brusco and Paba, “Per una storia,” 265–333.

¹¹*Ibid.*, 280–288, 304.

¹²Michael Best, *The New Competition: Institutions of Industrial Restructuring* (Cambridge: Harvard University Press, 1990); also, Michael Piore and Charles Sabel, *The Second Industrial Divide: Possibilities for Prosperity* (New York: Basic Books, 1984); Enzo Rullani, “Territorio e informazione: i sistemi locali come forme di organizzazione della complessità,” *Economia e politica industriale* (45) (1985).

¹³Trigilia, “Le subculture politiche territoriali” and *Grandi partiti e piccole imprese*; Massimo Paci, *Famiglia e mercato del lavoro in un’economia periferica* (Milan: F. Angeli, 1980).

- ¹⁴Sebastiano Brusco, "The Emilian Model: Productive Decentralisation and Social Integration," *Cambridge Journal of Economics* (6) (1982): 167–184; Giacomo Becattini and Enzo Rullani, "Sistema locale e mercato globale," *Economia e politica industriale* (80) (1993); Vittorio Capecchi, "A History of Flexible Specialisation and Industrial Districts in Emilia-Romagna," in F. Pyke and W. Sengenberger, eds., *Industrial Districts and Local Economic Regeneration* (Geneva: International Institute for Labour Studies, 1992); Giacomo Becattini, *Distretti industriali e Made in Italy: Le basi socioculturali del nostro sviluppo economico* (Turin: Bollati Boringhieri, 1998).
- ¹⁵On Biella, see Locke, *Remaking the Italian Economy*, 136–172; and Arnaldo Camuffo and Anna Comacchio, *Strategia e organizzazione nel tessile-abbigliamento* (Padova: CEDAM, 1990).
- ¹⁶L. Federico Signorini, "The Price of Prato, or Measuring the Industrial District Effect," *Papers in Regional Science* 73 (4) (1994): 369–392.
- ¹⁷*Ibid.*, 375–378.
- ¹⁸L. Federico Signorini, "L'effetto distretto," in L. Federico Signorini, ed., *Lo Sviluppo Locale* (Rome: Donzelli, 2000). See in that volume particularly S. Fabiani, G. Pellegrini, E. Romagnano, and L. Federico Signorini, "L'efficienza delle imprese nei distretti industriali Italiani."
- ¹⁹Banca d'Italia, *Relazione del governatore*, Assemblea Generale Ordinaria dei Partecipanti, Rome, 1997, 83.
- ²⁰Marco Fortis, *Il Made in Italy* (Bologna: Il Mulino, 1998).
- ²¹*Ibid.*, 121.
- ²²Becattini, *Distretti industriali*, 36, 126.
- ²³Piore and Sabel, *The Second Industrial Divide*; Charles Sabel and Jonathan Zeitlin, "Historical Alternatives to Mass Production," *Past and Present* 108 (August 1985). For a critique of this optimism, see Bennett Harrison, *Lean and Mean: The Changing Landscape of Corporate Power in the Age of Flexibility* (New York: Basic Books, 1994).
- ²⁴Berger, "Uso politico e sopravvivenza dei ceti in declino"; Luigi Frey, ed., *Lavoro a domicilio e decentramento dell'attività produttiva nei settori tessile e dell'abbigliamento in Italia* (Milan: Franco Angeli, 1975); Massimo Paci, *La struttura sociale italiana: costanti storiche e trasformazioni recenti* (Bologna: Il Mulino, 1982).
- ²⁵On the impact of Italian districts on research on industrialization in developing countries, see Hubert Schmitz and Khalid Nadvi, "Clustering and Industrialization: Introduction," in a special issue, "Industrial Clusters in Developing Countries," *World Development* 27 (9) (1999): 1503–1514.
- ²⁶Timothy Sturgeon, "Turn-Key Production Networks: A New American Model of Industrial Organization?" Berkeley Roundtable on the International Economy, Berkeley, Calif., 1997. Gary Gereffi, "The Organization of Buyer-Driven Global Commodity Chains: How U.S. Retailers Shape Overseas Production Networks," in Gary Gereffi and Miguel Korzeniewicz, eds., *Commodity Chains and Global Capitalism* (Westport, Conn.: Praeger, 1994), 95–122.
- ²⁷Michel Albert, *Capitalisme contre Capitalisme* (Paris: Editions du Seuil, 1991); David Soskice, "The Institutional Infrastructure for International Competitiveness: A Comparative Analysis of the U.K. and Germany," in Anthony B. Atkinson and Renato Brunetta, eds., *The Economics of the New Europe: From Community to Union* (London: Macmillan, 1991); Wolfgang Streeck, *Social Institutions and Economic Performance: Studies of Industrial Relations in Advanced Capitalist Economies* (Beverly Hills: Sage, 1992).
- ²⁸Wolfgang Streeck, "German Capitalism: Does it Exist? Can it Survive?" in Colin S. Crouch, ed., *Modern Capitalism or Modern Capitalisms?* (London: Sage, 1997), 33–54.
- ²⁹AnnaLee Saxenian, *Silicon Valley's New Entrepreneurs* (Berkeley: Public Policy Institute, 1999).
- ³⁰Suzanne Berger and Richard K. Lester, eds., *Made By Hong Kong* (Hong Kong: Oxford University Press, 1997).
- ³¹U.S. Bureau of Labor Statistics, *International Statistics* (Washington, D.C.: U.S. Bureau of Labor Statistics, 2000).

³²Fabiani, Pellegrini, Romagnoni, and Signorini, “L’efficienza delle imprese nei distretti industriali Italiani.”

³³Harrison, *Lean and Mean*.

³⁴Mark H. Lazerson and Gianni Lorenzoni, “The Firms that Feed Industrial Districts: A Return to the Italian Source,” *Industrial and Corporate Change* 8 (2) (1999): 235–266.

³⁵Signorini, “The Price of Prato.”

³⁶Brusco and Paba, “Per una storia dei distretti industriali italiani dal secondo dopoguerra agli anni novanta,” 329.

³⁷See Associazione Nazionale Fabbrianti Articoli Ottici, *L’industria Italiana degli occhiali* (Milan: ANFAO, 1999), on the glasses sector.

³⁸Signorini, “L’effetto distretto,” 33.

³⁹Marco Mutinelli and Lucia Piscitello, “Tipologie e determinanti degli investimenti diretti industriali italiani nei paesi dell’Europa centrale e orientale,” *L’Industria*, n.s., 28 (1) (January–March 1997): 89–118.

⁴⁰Research in progress at the Globalization Study, Industrial Performance Center, MIT, Cambridge, Mass.

⁴¹Our thinking on complementarity as a globalization strategy has been much influenced by the dissertation research of Teresa Lynch.