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IL CASO ITALIANO AND GLOBALIZATION

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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 where economic dynamism co-existed 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 clientelism, 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—“un inesausta appropriazione di sempre piu estese quote della ricchezza che il paese produce.”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 vast preponderance in the economy of small and medium sized enterprises, which buffered the risks and shocks of rapid growth by capacity subcontracting and by absorbing workers who did not find regular employment.⁴ From the perspective of the mid-

seventies, the economic success of Italy could be understood as a kind of proof of the irrelevance of politics.

The understanding of Italy in *Il Caso Italiano* projected the divide between economic dynamism and political traditionalism into an indefinite future. What we participants in the 1974 effort failed to see was a deep transformation then taking place in the relations among politics, economy, and society. These changes were occurring—not at the national level, where partisan exploitation of the public sector, rising social conflict, and right and left wing terrorism combined to produce political immobility—but in local and regional politics. It was a transformation that reconstructed the political economy of small and medium scale industry in certain regions of Italy into what became known as “industrial districts” by using local political institutions to stabilize and sustain new forms of coordination and cooperation in production.⁵ National politics did play some role in activating these changes, for example, the new labor legislation of the seventies 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 small and medium scale enterprises prospered mainly as capacity subcontractors and large firms transferred work to small and medium scale enterprises as ways of reducing wages, social charges, and taxes.

However important the enabling legislation passed at the national level, the lion’s share of the political initiatives were those at the local level, where 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, quality, and innovative capabilities through cooperation. It was in the very strongholds of Catholic and Communist subcultures, 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—that this political transformation took place.⁷ The new industrial districts of the “third Italy” (Emilia-Romagna, Veneto, Tuscany, Umbria, the Marche) grew on terrain that had been devastated in the past by 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’s analysis suggested, the new localism of the seventies succeeded by overcoming a recent past of violent social conflicts and political 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 Districts are defined as those “local labor markets” (local economies in which people live within commuting distance of their workplaces) which meet four criteria: manufacturing employment is higher than the national average, the share of industrial workers in firms under 250

employees is higher than average, the share of the workforce in at least one sector is higher than the national average, and in that sector (or sectors) of industrial specialization, 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 numbers 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 in the Italian Mezzogiorno), but by 1971, the map is 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 only later to turn to knitwear and apparel.¹¹

Because of the economic dynamism these districts have displayed, they have become analyzed and celebrated in a wide ranging literature which 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 and managed enterprises, on artisanal and

craft legacies of 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 socio-economic 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 break-up 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 a 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 amortize rapidly 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 performed in ways that could only be accounted for by being in the district —and measurably better than “non-district” firms of the same size and technology in the same product markets. For example, 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 than for “isolated” firms. Profitability was not due to lower labor costs (per capita labor costs were between 10-20% higher in district firms) but rather to greater labor productivity rates, which averaged between 12 and 26 percent higher than 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 1991-95 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, other studies indicate that district-based firms are more likely to export than non-district-based firms. Marco Fortis and 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 1997. Another study estimates that in 1995, the districts produced some 22% of Italian exports (with much larger shares of exports in particular sectors: 66% of textiles, 37% of apparel, 34% 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.

On an intellectual and policymaking landscape dominated by theories that conceived large-scale mass production of standardized commodities for large homogenous markets as the microfoundations of 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, first, because they seemed to demonstrate the

viability of alternative models of economic success, and their prospects even in advanced industrial countries. Secondly, the industrial districts appeared as important phenomena, not only because they showed that certain kinds of small firms and specializations could survive in a world of rapid technological change and growing international competition; but even more, because these networks of cooperating and competing small producers seemed especially versatile at achieving what large-scale “Fordist” industries could not do well: satisfying rapidly changing 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 basically changed understandings of how modern economies were evolving and of what the range of possibilities was for constructing competitive advantage.

Finally, the Italian industrial districts attracted scholarly interest and hopeful attempts at emulation 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 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 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 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 belonging to the same family as the Italian districts.

Today, the more general interest of the Third Italy lies not so much 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 wide-spread 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 the kinds of 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, whose competitive advantage seems to rest on the co-location of various phases of production, survive?

Economic Embeddedness in an Era of Globalization

At the beginning of the nineties Michel Albert's Capitalism vs. Capitalism (1991) launched a debate over the societal 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 specificities of German, Japanese, Italian, French, and other "models."²⁷ The common intuition underlying all of these contributions is that economic performance is a characteristic of firms understood not as autonomous actors but as social creations, highly dependent on societal resources which they 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, with the same technologies and products will differ systematically across societies according to the kinds of resources and frameworks 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, arms-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, German or Japanese capitalism. 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 of these constellations 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 societal resources, then globalization might differentially affect models of capitalism by undermining a society's capability of reproducing those resources. Capital mobility, for example, might have different effects on a country whose economic system involved heavy reliance on labor-capital negotiation and cooperation in the workplace than in a country where skills are formed in schools and universities outside the workplace and acquired in markets.

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 natives, immigrants, 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 that are being manufactured today at low cost and at increasingly high levels of quality in the low-wage economies of Central East 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 even in industries like garments and ceramic tiles, that Italian small and medium scale district-based enterprises can prosper in global competition, then we need to revise expectations about the vulnerability of territorially-embedded economic arrangements to the mobility of capital, goods, and services across borders. The future trajectory 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, together with our Italian colleagues Enzo Rullani and Arnaldo Camuffo of C'a Foscari University

in Venice, we have been conducting interviews and factory visits in several of Italy's industrial districts. 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? There are a number of dimensions along which one might anticipate change. First, globalization might, by increasing competition with producers outside Italy, either through trade or through investments by Italian firms abroad, induce greater elasticity for demand for labor in the districts. This would be manifested either in wage stagnation or in rising unemployment in the districts. In fact, unemployment has remained very low in the districts compared not only to the rest of Italy, but also to other European societies. In Italy as a whole, unemployment rates have remained virtually unchanged – averaging about 11% --throughout the 1990s.³¹ In the provinces strong in districts, unemployment levels in 1998 were about one-third the national average: 4.3% in Biella, 3.4% in Belluno, 3.4% in Reggio Emilia and Treviso, 4.7% in Modena. In comparison, unemployment rates in France were about 10%, in Germany 8.5%, and in the United Kingdom 5.5%

Comparing wage levels 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 on average,

compensation for manufacturing workers employed by firms located within the districts was 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, none raised declining wages or growing unemployment in their areas. If anything, they worried about how best to integrate newly recruited (often foreign) workers into their communities.

A second way in which globalization may be undermining the industrial districts is through capital mobility. Capital mobility in the form of foreign multinationals, eager to buy up well-placed local companies and to skim off the cream of local ideas and talents, may come into the districts and distort their traditional networks and practices.³³ In each of the districts we have visited over the last year in Emilia Romagna, Veneto, and Biella, we have indeed found foreign-owned enterprises, but their presence appears to be small and not dominant. The examples observers cited five years ago – Tetrapak in Bologna, Nike in Montebelluno – are the same firms pointed to today. Moreover, to the extent 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, globalization might transform the districts by creating incentives for district firms to change themselves. This might occur through the reorganization of the firm and/or relocation of a significant part of the firm's activities outside the district. One pattern of corporate reorganization that would unravel the tight networks of the districts would be one in which larger and more successful firms tried to develop and

control a larger number of functions in-house and with this move to greater vertical integration, hence reducing 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 no larger base of evidence that would allow us to conclude that these examples are manifestations of a trend and 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 textiles firms not embedded in districts.

Observers of the districts are concerned about another kind of reorganization in response to globalization. Relationships among firms which 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.”³⁵ 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.³⁶ 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."³⁷

Delocalization of Production

The more evident danger is the relocation of activities outside the district, particularly in Central East Europe. Since the fall of the Berlin Wall, Italian firms have been major investors in CEE, surpassed only by German and American investors.³⁸ But there to be great differences in the degree of involvement of the districts in outward investment. On the basis of still-preliminary evidence from our interviews, we would suggest a range of experience, from Emilia-Romagna, whose firms seem relatively uninvolved in relocation, to the Veneto, where there has been massive (although not systematically documented) shifting out of production. In Timisoara, Romania 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 an hypothesis that 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 which 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.³⁹ 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 their recently-acquired Ray-Ban sunglasses and reassembling the equipment in Italy. They are also moving back to Italy production that had been outsourced to China.

Is it that the geographic and cultural distances between Hong Kong and Taiwan, on one side, and the countries in which they are relocating their economic activities (China, Indonesia, Malaysia, Vietnam) are less than Italy's to 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-straits relationships. In contrast, air and road link 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—higher quality? Brandname goods? Fashion? There is undoubtedly

some truth to this, and the kinds of production which 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 explaining the pattern of those that remain is a puzzle. A firm like Benetton still produces 90% 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 (Vallesella di Cadore)which 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% 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 license the brandnames (as, for example Luxottica licenses the names like Armani, Chanel, 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 goods they make that are sold with 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 reduce 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, finding workers in short supply at home, gaining access to closed markets (as in 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 significant numbers of 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 are far less important. Those who had opened plants abroad in order to gain market access often acknowledged that they had overestimated the possibilities of these new markets and that repatriating capital was difficult.

These disappointments did not seem overwhelming to our respondents, however, because they seemed not the main point. The one common theme of the district firms which have opened plants outside of Italy is that this enables an expansion of the firm beyond (and not in place of) the production capabilities of the firm in the district. The activities which were being developed abroad were conceived as complementary to the production that continues in the district.⁴⁰ The character of the foreign activities might offer different kinds of complementarity. Sometimes the foreign site allows the district firm to continue a low-end (i.e., low-skilled, low profit 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 makes cashmere and silk yarns in Italy and “regenerated cotton” yarn (i.e., from reprocessed rags) in Poland. There’s little market in Italy for this yarn any more, and the operation is relatively simple and labor intensive. Wages in Italy are 11 times higher than the wages in their Polish plants; overall, labor costs amount to 30% of their costs in Italy and only 3% 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, and widening its customer base.

Complementarity can also mean producing abroad at lower cost an input 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 moulding and die-making techniques are difficult and involve trade secrets they wish to keep “in-house.” Plastic moulding, decoration, and assembly are done in Italy, and require 10 minutes of labor. The liners, the cutting of fabric, and assembling the liner take 21 minutes of labor and are done in Romania, where costs are about 25% of Italian costs. 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 allowing them to lower the cost of a boot that is still produced in Italy; China allowing 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 described above as evidence not of a distinctive pattern of response to globalization, but of lag. On this reading, the districts 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 and as the capabilities of their foreign plants rise---and competition grows with low-wage countries in the sectors in which the districts excel---the balance may tip. Their operations in the periphery will expand, hollowing out the districts. Perhaps company headquarters will remain in the districts, along with product development and marketing---for which Western buyers would willingly go to Romania to place orders? But manufacturing and the activities closely associated with it, like tool and die-making and programming, will move to lower-wage countries close to Italy.

In this view, globalization pushes all firms that compete in the same sector towards the same set of “best practices” and towards the same cost structure. If this is the case, then the lag of the Italian districts would have heavy consequences. As other societies have moved out of their 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 districts' lag 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, ultimately, 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 in 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 among social actors. Even in industries with relatively labor-intensive production, the advantages from locating 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---apparently outweigh the gains from lowering labor costs.

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 longterm 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 waystations along a common route, but may represent deep and enduring forms of social and economic organization.

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- ² Charles Kindleberger, “Economia al bivio,” in Il caso italiano (1974), 240- 268.
- ³ Cavazza (1974), 22.
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