

THE COMPOSITE ECONOMY: LOCAL POLITICS AND INDUSTRIAL  
CHANGE IN CONTEMPORARY ITALY

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Local Politics and Industrial Change in Contemporary Italy

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## 1. Introduction: Making Sense of Italy

[T]he need for a system of planning is, if anything, more acute in a country like Italy where the structure of large-scale industry weakens the play of market forces and the economic life of the country is largely determined by disparate decisions made in a series of unconnected centers of power, both in the public and the private sector...The truth is that behind an administrative facade which bears many of the French labels and whose design has been deliberately modelled on French ideas, the Italian system of government is in practice among the least coordinated in Western Europe.

Andrew Shonfield, Modern Capitalism: 196

Italy has historically appeared to be a nation with a "weak state", or at least, without a concerted political will capable of regulating the economy. Adjectives like "backward", "corrupt", "polarized" and "unstable" are regularly used (by foreign and native observers alike) to describe various features of Italy's political economy.<sup>1</sup>

Recent events have reinforced this negative image of Italy. Since February 1992, for example, an ever widening scandal over bribes paid by businessmen to politicians in return for public works contracts has shaken Italy.<sup>2</sup> Irresponsible public spending and archaic fiscal policies have also resulted in an enormous government debt (largely exceeding Gross Domestic Product [GDP]) which, in turn, contributed to the Lira's collapse on international markets and its withdrawal

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<sup>1</sup> See, for example, Edward Banfield, The Moral Economy of a Backward Society, (New York: Free Press, 1967); Gianprimo Cella, "Criteria of Regulation in Italian Industrial Relations : A Case of Weak Institutions," in State, Market, and Social Regulation : New Perspectives on Italy, Peter Lange and Marino Regini, eds., (New York: Cambridge University Press, 1989), pp. 167-186; Judith Chubb and Maurizio Vannicelli, "Italy: A Web of Scandals in a Flawed Democracy," in The Politics of Scandal, Andrei Markovits and Mark Silverstein, eds., (New York: Holmes-Meier, 1988), pp. 122-160; Luigi Graziano, "Center-Periphery Relations and the Italian Crisis: The Problem of Clientalism," in Territorial Politics in Industrial Nations, Sidney Tarrow, Peter Katzenstein, and Luigi Graziano, eds., (New York: Praeger Publishers, 1978), pp. 290-326; Carlo Tullio-Altan, La nostra Italia : Arretratezza Socioculturale, Clientalismo, Trasformismo e Ribellismo dall'Unita' ad Oggi, (Milan: Feltrinelli, 1976); and Giovanni Sartori, "European Political Parties : The Case of Polarized Pluralism," in Political Parties and Political Development, Joseph La Palombara and Myron Weiner, eds., (Princeton University Press, 1966), pp. 137-176.

<sup>2</sup> For more on the pervasiveness of political corruption in Italy, see Franco Cazzola, L'Italia Del Pizzo : Fenomenologia Della Tangente Quotidiana, (Turin: Einaudi, 1992); and Donatella della Porta, Lo Scambio Occulto. Casi di corruzione politica in Italia, (Bologna: Il Mulino, 1992).

from the European Exchange Rate Mechanism in the autumn of 1992.<sup>3</sup> Finally, open attacks on the state's authority by the Mafia and other organized crime syndicates, especially in the South, and the recent substitution of the traditional governing political parties (e.g. Christian Democrats and Socialists) with new, regionally-based parties (e.g. Legha Nord,<sup>4</sup> Alleanza Nazionale and Forza Italia) have together reinforced the image of Italy as weak and unstable.

Alongside these various political and economic crises, however, exists a second, more dynamic Italy. Although often obscured by the negative portrayals of the country, the existence of this second Italy is confirmed by a series of comparative statistics that indicate that Italy in the late 1980s outperformed most of its more "efficient" and "stable" neighbors in terms of growth of exports and GDP, labor productivity, firm profitability, investment in new machinery and equipment, and the accumulation of personal savings.<sup>5</sup> Italy's economic performance undoubtedly declined in the early 1990s, due to the global recession and the country's domestic difficulties, but its economy is still far more vital than most popular accounts would suggest. For example, in a variety of diverse sectors, including machine tools, automobiles, specialty steels, textiles and apparel, and ceramic tiles, Italian producers remain major exporters in world markets.<sup>6</sup>

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<sup>3</sup> For more on Italy's growing debt, see Vincent Della Sala, "The Italian Budgetary Process: Political and Institutional Constraints," West European Politics, vol. 11, no. 3, (July 1988), pp. 110-125. For an interesting analysis of the fall 1992 currency crisis, see Kevin Muehring, et. al, "Currency Chaos: The Inside Story," International Investor, October 1992.

<sup>4</sup> For more on the Legha, see Renato Mannheimer, La Legha Lombarda, (Milan: Feltrinelli, 1991); and Dwayne Woods, "The Centre No Longer Holds: The Rise of Regional Leagues in Italian Politics," West European Politics, vol. 15, no. 2, (April 1992): pp. 56-76.

<sup>5</sup> For more on Italian growth rates in comparative perspective, see OECD, Main Economic Indicators, (Paris : OECD, 1993). Data on productivity growth are reported in U.S. Bureau of Labor Statistics, Data Diskette, December 1992. Machinery and Equipment expenditures are reported in OECD, Historical Statistics, (Paris : OECD, 1992). Personal savings rates can be found in the Handbook of International Statistics 1992, (Washington, D.C., September 1992).

<sup>6</sup> In the late 1980s, Italy's national champion in automobiles, Fiat, ranked second only to Volkswagen in number of autos produced in Europe. Since then, Fiat, along with other leading European automobile manufacturers (e.g., Volvo, Volkswagen), has experienced challenges to its competitiveness. Nonetheless in 1992, Fiat remained the sixth largest automobile manufacturer in the world. (See Automotive News, May 26, 1993, p. 3). Italian producers hold about 10% world

This essay seeks to explain the apparent paradox behind these two contrasting images of Italy while at the same time advancing an alternative approach to the study of comparative political economy. In contrast to the dominant approach which sees nation-states or "national systems" as the basic unit of analysis and seeks to explain cross-national variation in economic performance by focusing on particular institutional arrangements and/or patterns of state-society relations, my alternative micro-political analysis emphasizes the internal heterogeneity of national economies and the "embeddedness" of economic activity in local socio-political networks. In this alternative view, national political economies are not coherent systems but rather incoherent composites of diverse subnational patterns that coexist (often uneasily) within the same national territory.<sup>7</sup>

The micro-political approach explains how within the same national economy one can identify both patterns of entrepreneurial dynamism and industrial decline. Although present within the same country, these divergent patterns are situated in very different local economies, which are, in turn, characterized by alternative patterns of associationalism, intergroup relations, political representation, and economic governance. In Italy, firms and industries situated in localities with particular socio-political attributes (e.g., dense networks of well-developed associations and interest groups capable of aggregating diverse interests, mediating industrial conflict, and diffusing information) adjusted more successfully<sup>8</sup> to changing world markets than did other companies embedded

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market share in textiles and apparel (see International Trade and Statistics Yearbook and Data, 1991); 27% world market share (52% European market share) in ceramic tiles (see Il Sole 24 Ore, May 31, 1993, p. 3); over 11% world market share in machine tools (fourth largest producer, after Japan, Germany and the United States, see American Machinist, February, 1993, pp. 33-77); and about 25% of the European market for specialty steels (number two spot, after Germany, see Margherita Balconi, La siderurgia italiana (1975-1990), (Bologna: Il Mulino, 1991, p. 473).

<sup>7</sup> This point was raised initially in a series of conversations with Gary Herrigel.

<sup>8</sup> In this paper I embrace Peter Katzenstein's definition of "successful adjustment", which includes political as well as economic outcomes. See Peter Katzenstein, Small States in World Markets, (Ithaca, N.Y.: Cornell University Press, 1985), p. 29.

in areas with different historical legacies and more limited local resources.

Viewing the Italian economy as a complex composite of diverse local systems helps us not only to reintegrate the two contrasting images of Italy, but also to understand some of the country's current difficulties. Because the massive wave of industrial restructuring that swept across the Italian economy in the 1980s had such divergent consequences for the country's various subnational economies, socioeconomic disparities within Italian society increased in the late 1980s and early 1990s. For example, differences in income, employment, and the quality of social services between the developed North and the less developed South (and even among various regions of the South) -- differences that appeared to be narrowing in the 1970s -- actually increased in the 1980s.<sup>9</sup> Through various government-funded programs the Italian state sought to compensate for these growing socioeconomic disparities and hold together the country's divergent subnational economic orders. Yet the costs of these programs have strained the Italian political economy and provoked a major fiscal/macroeconomic crisis and a political backlash against the central government -- especially by the Lega Nord which seeks to dismember the Italian state into a loose confederation of macropolitical regions.<sup>10</sup> By creating a more costly and uncertain business environment, these macroeconomic and political crises may threaten to undermine even the more successful Italian regional economies.

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<sup>9</sup> For more on these trends, see CENSIS, 25 Rapporto Sulla Situazione Sociale Del Paese 1991, (Milan: Franco Angeli, 1992). For more on differences within the South, see Simona Piattoni, "Re-interpreting Clientalism: Local Economic Development in the Italian South," Ph.D. dissertation in progress, Department of Political Science, MIT.

<sup>10</sup> The Lega's proposal for a reconfiguration of the Italian state into a looser federation of regions is remarkably similar to what certain Meridionalisti at the turn of the last century advocated as well. These earlier federalists argued that increased local and regional autonomy was essential for the economic and civic development of the Italian South. For more on this, see Carlo Trigilia, Sviluppo senza autonomia. Effetti perversi delle politiche del Mezzogiorno, (Bologna: Il Mulino, 1992). See also Gian Enrico Rusconi, Se cessiamo di essere una nazione, (Bologna: Il Mulino, 1993). For more on the recurrent debates within Italian history over the degree of centralization vs. local autonomy in Italy, see various essays in Luigi De Rosa and Ennio Di Nolfo, Regionalismo e centralizzazione nella storia di Italia e Stati Uniti, (Florence, Leo S. Olschki Editore, 1986).

To the extent that other national governments also appear to have lost macroeconomic control over their economies,<sup>11</sup> and given that today, countries as diverse as Sweden, Germany, and the United States -- national systems Italians once sought to emulate -- are beginning to resemble Italy in terms of institutional fragmentation and economic decentralization, the Italian case may provide more general lessons for students of comparative political economy.

The remainder of this paper develops this argument about the way different local socio-political networks shape the strategic choices of economic actors in divergent ways. It is divided into three sections. The first section assesses various alternative explanations for the Italian case and then lays out in greater detail my own argument. The second part provides an empirical illustration of my argument by tracing the role local socio-political networks played in shaping the divergent adjustment patterns in two of Italy's most well-known textile districts: Biella and Prato. The last section considers the implications of this type of analysis for other advanced industrial nations and for future research in comparative political economy. In this concluding section, I argue against viewing Italy as an anomalous or exceptional case and seek to extend the lessons of the Italian case to a variety of other countries, with very different historical legacies and institutional arrangements.

## 2.1 Explaining the Italian Paradox: Alternative Hypotheses Considered

There are two basic explanations for Italy's apparently paradoxical economic performance, each associated with a particular image of Italy. The first explanation draws on the insights and analytic categories of what I refer to as the "national models" school of comparative political economy. Since the publication of the classic work of Andrew Shonfield, Modern Capitalism: The Changing Balance of Public and Private Power, if not before, comparative

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<sup>11</sup> For a provocative essay on this issue, see Sabino Cassese, "Oltre lo Stato ; i Limiti dei Governi Nazionali nel Controllo dell'Economia," in Nazioni Senza Ricchezza, Ricchezze Senza Nazione, Francesco Galgano, Sabino Cassese, Giulio Tremonti and Tiziano Treu, (Bologna: Il Mulino, 1992).

political economy has focused on the institutional arrangements and/or patterns of state-society relations of different nation-states to explain divergent patterns of industrial development, decline, and adjustment.<sup>12</sup> This approach stresses how individual nations with particular histories and varying positions in world markets develop specific institutional arrangements to govern their economies. More than simply describe institutional differences, this approach often assumes that certain "national systems" with particular organizational features are more "mature" and/or "efficient" than others and prescribes the active diffusion or replication of these "best (institutional) practices" across nations.

During the 1970s and 1980s, scholars and policy makers alike pointed to institutional arrangements associated with particular nation-states as the best way to reverse economic decline and promote industrial adjustment. Some suggested etatist France (Cohen, 1969; Zysman, 1977) and Japan (Johnson, 1982) with their highly technocratic state bureaucracies providing various forms of administrative guidance to leading economic sectors; others looked to northern European neocorporatist systems of centralized interest intermediation, peak-level bargaining, and Social Democratic politics (Schmitter, 1981; Cameron, 1984; Katzenstein, 1984); and still others to the United States, with a regulatory framework designed to promote free markets, competition, and individual entrepreneurship (Gilder, 1989).

Although the Italian economy possesses elements of etatism, neocorporatism, and liberalism -- the Italian state's extensive involvement in the economy rivals

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<sup>12</sup> For examples of this work, see among others Michel Albert, Capitalism Against Capitalism, (London: Whurr Publishers, 1993); Geoffrey Garrett and Peter Lange, "Performance in a Hostile World: Domestic and International Determinants of Economic Growth in the Advanced Capitalist Economies," World Politics, vol. 38, 1986; Peter Hall, Governing The Economy, (New York: Oxford University Press, 1986); Peter J. Katzenstein, "Conclusion: Domestic Structures and Strategies of Foreign Economic Policy," in Between Power and Plenty, Peter J. Katzenstein, ed., (Madison, Wisc.: University of Wisconsin Press, 1978), pp. 295-336; Marc Maurice, Francois Sellier and Jean-Jacques Silvestre, The Social Foundations of Industrial Power: A Comparison of France and Germany, (Cambridge, Mass.: MIT Press, 1986); David Soskice, "Reinterpreting Corporatism and Explaining Unemployment: Co-ordinated and Non-co-ordinated Market Economies," in Labour Relations and Economic Performance, Renato Brunetta and Carlo Dell'Aringa, eds., (London: Macmillan, 1990); and John Zysman, Governments, Markets and Growth, (Ithaca, N.Y.: Cornell University Press, 1983).



that of France (Cassese, 1987; Shonfield, 1965: 196); historically liberal economic assumptions have guided its macroeconomic policy (Hildebrandt, 1965); and several industrial sectors and regions achieved various corporatist-like agreements (Perulli, 1984; Chiesi and Martinelli, 1989) -- none of these elements has come to dominate the national political economy as a whole. Instead, because of its Byzantine institutional arrangements, the standard literature on European political economy often describes Italy as an "anomalous" or "exceptional" case.

Seen through the analytic lenses of the "national models" approach, Italy's current maladies are not at all surprising. In fact, they are to be expected given the country's "dysfunctional" institutions and "clientalistic" socio-political arrangements. What cannot so easily be accommodated within this dominant framework are the more dynamic features of the Italian economy. For accounts that emphasize the importance of national institutional arrangements it remains somewhat of a mystery how Italy -- once seen as the "sick man" of Europe -- managed to outperform its etatist, neocorporatist, and neoliberal neighbors throughout most of the 1980s.

Even when Italy's economic successes are acknowledged, they are often explained away as temporary or conjunctural phenomena: the product of favorable exchange rates, cheap oil prices, and rising unemployment (which, in turn reduces the militancy and cost of labor). Once these favorable conditions evaporate, so too will Italy's economic successes. This explains why despite several "fat" years in the 1980s, Italy's economic maladies have resurfaced. In other words, given that there were no major structural reforms of the Italian political economy, Italy remains essentially a "backward" and "inefficient" nation. Its economic successes were temporary anomalies, unlikely to be repeated in the near future.

While the "national models" approach to comparative political economy is useful in pointing out the important role national institutions play in regulating the political economy, its explanation for Italy's mixed economic performance may be too simple. Although this view captures Italian failures, the more vibrant aspects of the Italian economy cannot be simply written off as

temporary or conjunctural phenomena. Barca and Magnani (1989 : 45), for instance, have shown that because of the Italian economy's extensive system of wage indexation, double-digit rates of inflation, and continued dependence upon foreign sources of oil (purchased in expensive U.S. dollars), the currency devaluations of the 1970s and 1980s did not help Italian industry nearly as much as is often assumed.

Likewise, while all industrial producers experienced a reduction in energy costs due to technological innovations and OPEC's internal crisis, a 1985 study showed that Italian industry still consumed 25 percent more energy than its French and German counterparts (Silvani, 1985). Thus, Italian industry benefitted from lower oil costs but no more than its principal competitors. Finally, although unemployment rose<sup>13</sup> and union power declined throughout the 1980s, labor costs in Italy actually increased over the course of the decade. By the 1990s, among the "Big Seven" Italian hourly labor costs were second only to German rates. Thus, it appears as if the decline of unit labor costs observed in Italy in the 1980s was not achieved through an overall decline in labor costs but rather through increased labor productivity, itself the result of firm restructuring and technological innovation. This process of successful industrial adjustment is precisely what needs to be explained and accounts that focus on Italy's "anomalous" institutional structures and/or temporary shifts in factor costs appear unable to do this.

The second explanation for Italy's paradoxical economic performance pays little attention to national institutions. Instead it focuses on certain peculiarities of the Italian economy. This second school of thought sees Italy

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<sup>13</sup> As in other European nations, unemployment in Italy increased dramatically during the 1980s. But this growth in unemployment was often concentrated in certain segments of the labor force -- women, youth, unskilled Southern workers -- who have been historically under-employed and who could not necessarily fill the jobs required by firms undergoing adjustment. Thus, how much this growth in unemployment really affected the costs of industrial labor is open for debate. For more on this, see Aris Accornero and Fabrizio Carmignani, I Paradossi Della Disoccupazione, (Bologna: Il Mulino, 1986). For more on the difficulties particular national labor features and modes of measurement pose for comparative studies of unemployment, see Joyanna Moy, "An Analysis of Unemployment and Other Labor Market Indicators in 10 Countries," Monthly Labor Review, vol. 111, no. 4, (April 1988), pp. 39-50.

not as an "anomalous" case but rather as a paradigmatic illustration of the "new competition" (Piore and Sabel, 1984; Goodman, 1989; Best, 1990; Inzerilli, 1990; Pyke, Becattini, Sengenberger, 1990). This second view focuses primarily on Italy's industrial districts of dynamic small- and medium-sized firms. Citing the extremely high rates of growth and innovative firm strategies within these districts, this approach sees Italy's economic vitality as stemming from the ability of these highly specialized and flexible firms to compete successfully in world markets.

With time, so this second view goes, this alternative model of production will diffuse throughout the Italian economy and even to other national systems. Far from being merely a passing phenomenon, Italian economic success represents the country's future. To the extent that this view acknowledges Italy's current difficulties, it explains them away as problems of transition, inherent in any major shift from one regime of production to another.

In many ways, scholars working from this perspective are correct. Between 1971 and 1981 the shape of Italian industry underwent significant change. The number of small- and medium-sized firms (firms with a maximum of 99 employees) increased by 21 percent. Employment within these firms rose almost 29 percent during these same years (Rey, 1989: 71). During the 1970s, these same small- and medium-sized firms outperformed their larger counterparts in terms of growth of value added, investment, employment, and even average income per employee. Absenteeism and industrial conflict were also lower in small- and medium-sized firms (Bellandi, 1989: 49). These trends appear to have continued well into the 1980s (Rey, 1989: 79; Barca and Magnani, 1989: 171-197).

Although this second view is important in illustrating the very real and significant role small firms and industrial districts played in the resurgence of Italy's economy in the 1980s, it too suffers from several shortcomings. Often these accounts exaggerate the importance of the industrial districts but rarely do they discuss some of the "darker sides" of small firm production systems (Harrison, 1994). Moreover, not just small firms but also large enterprises contributed to Italy's economic revival in the 1980s. Throughout the 1980s, many

large firms that had previously been in trouble restructured themselves (sometimes even imitating certain flexible features associated with the industrial districts) and regained their competitiveness (Regini and Sabel, 1989). By the end of the decade it appeared as if these larger firms were outpacing the small-firm sector in terms of productivity, profitability, and the ability to innovate (Barca and Magnani, 1989: 225-285; Consolati and Riva, 1989).

Finally, not all agglomerations of small firms produced economic growth, stable employment, and technical innovation. Some so-called districts failed outright while others degenerated into collections of sweat shops (Amin, 1989; Blim, 1990). As some of the leading scholars of industrial districts have made clear, this model of economic development did not characterize all of Italy but only specific regions (Bagnasco, 1986).<sup>14</sup> The successful districts are concentrated primarily in the Center and Northeast of Italy. In these regions, commonly referred to as the "Third Italy", local entrepreneurs and unions were able to build on preexistent socio-political resources to promote high rates of economic growth in the 1970s and 1980s. These same actors were also able to use their well-developed organizational capacities to obtain disproportionately large shares of government assistance (i.e., discounted loans, subsidized credits, etc.) which further enhanced industrial development in these regions (Weiss, 1988).

Thus, we have two accounts that explain pieces of the Italian puzzle but not the entire picture. Seen through the lenses of the "national models" approach, Italy's economic difficulties are easy to understand but its successes are less comprehensible. Conversely, accounts that focus on Italy's industrial districts shed light on the economy's dynamic features but tend to obscure many of the country's structural shortcomings. The alternative, micro-political explanation developed in this paper paints a more differentiated picture of the

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<sup>14</sup> Nor can this model of development be replicated wholesale in other industrial settings. In fact, some of the strongest proponents of this view are quite clear about its limits. See, for example, Michael J. Piores's "Response" to Ash Amin and Kevin Roberts in Industrial Districts and Inter-firm Cooperation in Italy, Frank Pyke, Giacomo Beccatini and Werner Sengenberger, eds., (Geneva: International Institute for Labour Studies, 1990), pp. 225-227

Italian political economy. Italy is neither a completely chaotic country nor one composed primarily of dynamic small-firm districts. It is a heterogeneous composite of diverse subnational patterns that coexist within the same national territory. In contrast to accounts which focus on national institutional arrangements to explain differences in economic performance across nations, I look at the micro-level, at the strategic choices of the economic actors and how these choices are shaped by local socio-political networks, to understand diverse patterns of industrial politics within the same nation-state.

## 2.2. Revisiting the Italian Case : An Alternative, Micro-Political Approach

Most studies of Italian state-building stress how the existence of strong mercantile capitalist states in the north, a powerful papacy in Rome, and a backward monarchy in the south all prevented Italy from uniting into a full-fledged nation-state until the latter part of the nineteenth century.<sup>15</sup> Moreover, the way Italy eventually achieved unification -- essentially the result of political compromises (between northern and southern ruling classes and between the Savoy monarchy and foreign leaders) -- led to the incomplete integration of vast areas and numerous groups into the new Italian state. Other reasons for the missed consolidation of the Italian nation-state include the preservation of traditional social structures after unification in 1860 and the fact that the new state did not promote political, agrarian, and other reforms.

Incomplete socioeconomic integration and political unity at the beginning were not rectified but rather exacerbated by Italy's subsequent political history. Following unification in 1860, Italy experienced the politics of trasformismo in the late nineteenth century; the collapse of the Liberal regime

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<sup>15</sup> See, for example, Robert C. Fried, The Italian Prefects : A Study in Administrative Politics, (New Haven, Conn. : Yale University Press, 1963), Chapter 2; Perry Anderson, Lineages of the Absolutist State, (London: Verso, 1979); Derek Beales, The Risorgimento and the Unification of Italy, (London: Longman, 1981); Antonio Gramsci, "Notes on Italian History," in Selections from The Prison Notebooks of Antonio Gramsci, Quintin Hoare and Geoffrey Smith, eds., (New York: International Publishers, 1971); and Stephen Hellman, "The Emergence of the Modern Italian State," in European Politics in Transition, Mark Kesselman and Joel Krieger, eds., (Lexington, Mass. : D.C. Heath & Co., 1987), Chapter 16.

under fascism; the outbreak of World War II and the ensuing resistance, and the emergence of a highly polarized political system in the postwar era. All of these events reinforced rather than abated local and regional differences within Italy.<sup>16</sup> Thus, notwithstanding the Italian state's highly centralized administrative structure (modeled after the Franco-Napoleonic State)<sup>17</sup>, Italian politics have in practice accommodated, perhaps even encouraged, local and regional differentiation.

The composite pattern of Italy's economy is the legacy, I argue, of Italy's uneven political and economic development in which different areas were industrialized and enfranchised at different times. The terms, circumstances, and sequencing of these events had long-lasting effects on the socioeconomic resources and political character of Italy's various regions.<sup>18</sup> Region here means not the recently created (1970) administrative structures situated between the national and local (communal) governments (See Nanetti 1988; and Putnam 1993 for more on these) but rather the long-lasting social and political patterns that have historically shaped the Italian economy. Arnaldo Bagnasco (1988) and Carlo Trigilia (1986) describe these "localistic" patterns of economic regulation for

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<sup>16</sup> For more on how these events hindered the development of a strong and homogenous Italian nation-state and perpetuated local socio-economic and political differences, see, among others, Luigi Graziano, "Center-Periphery Relations and the Italian Crisis: The Problem of Clientalism, in Territorial Politics in Industrial Nations, Sidney Tarrow, Peter Katzenstein, and Luigi Graziano, eds., (New York: Praeger Publishers, 1978), pp. 290-326; Sidney Tarrow, Between Center and Periphery: Grassroots Politicians in Italy and France, (New Haven, Conn.: Yale University Press, 1977); Paul Ginsborg, A History of Contemporary Italy: Society and Politics 1943-1988, (London: Penguin Books, 1990); Robert Putnam, Making Democracy Work: Civic Traditions in Modern Italy, (Princeton, N.J.: Princeton University Press, 1992), Chapter 2; and Gian Enrico Rusconi, Se Cessiamo Di Essere Una Nazione, (Bologna: Il Mulino, 1993).

<sup>17</sup> For an interesting comparison of the administrative structures, legacies and attempts to reform these two states, see Peter Gourevitch, "Reforming the Napoleonic State: The Creation of Regional Governments in France and Italy," in Territorial Politics in Industrial Nations, Sidney Tarrow, Peter Katzenstein, and Luigi Graziano, eds., (New York: Praeger Publishers, 1978), pp. 28-63.

<sup>18</sup> For more on the uneven penetration of the periphery by the center and its impact on Italian politics, see Sidney Tarrow, Between Center and Periphery, pp. 66-67; and Carlo Trigilia, Grandi Partiti E Piccole Imprese, (Bologna: Il Mulino, 1986), pp. 43-132. See Seymour M. Lipset and Stein Rokkan's "Introduction" in their edited volume Party Systems and Voter Alignments, (New York: Free Press, 1967) for a discussion of how the sequencing of various developmental processes had long-lasting effects on the politics of different nation-states.

the Third Italy but they exist, in different forms and with varying characteristics, throughout the Italian economy.

Out of these divergent regional histories, distinct patterns of associationalism (Putnam 1993), political representation (Barnes 1977) and economic governance (Bagnasco 1977; Carocci 1975: chapter 7) emerged. It is difficult to quantify precisely the number of distinct political-economic patterns that coexist within the Italian economy. The estimates range from three to 955.<sup>19</sup> In this paper, I do not even try to count Italy's various local economies. Instead, from the array of distinct subnational arrangements, I identify three ideal-typical patterns. These three patterns, which I label hierarchical, polarized, and policentric, are ideal-types<sup>20</sup> and as such cannot fully capture the richness of detail of any one of Italy's many local economies. But they nonetheless help us organize what might initially appear to be an endless variety of local arrangements and to illustrate how particular contextual features shape economic behavior in clearly distinct ways.

Although I derived these three ideal-typical patterns from my own field research on industrial adjustment in the Italian automobile, textile, and petrochemical industries, my argument about how local socio-political networks shape economic behavior is influenced by and builds on previous research on center-periphery relations in Italy (Tarrow 1977; Dente 1985), the role of secondary associations and organized interest groups in democratic governance (Berger 1972; Cohen and Rogers 1992; Putnam 1992), the importance of social and

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<sup>19</sup> Bagnasco (1977) identifies three distinct socio-economic patterns associated with the three major territorial divisions (North, Center, and South) of the country but according to Paul Ginsborg, "...in purely historical terms it would be better to talk not of three Italys but of three hundred." (A History of Contemporary Italy: 3). Saville (1976) identifies seven different patterns whereas Sforzi (1989) divides the Italian economy into 955 distinct "local labor market areas". Political scientists have also wrestled with the problem of dividing Italy into distinct political areas. For an interesting review of this literature, see Roberto Carocci, "Otto risposte a un problema: la divisione dell'Italia in zone politicamente omogenee," Polis, vol. 1, no. 3 (December 1987), pp. 481-514.

<sup>20</sup> For more on the use and limits of ideal-types, see J.W.N. Watkins, "Ideal Types and Historical Explanation," in The Philosophy of Social Explanation, Alan Ryan, ed., (Oxford: Oxford University Press, 1978), pp. 82-104.

political networks in structuring interactions among different individuals and groups (Granovetter 1973,1982; Knoke 1990; Cohen and Dawson 1993); and the social, political, and institutional foundations of alternative production systems (Piore and Sabel 1984; Bagnasco 1988; and Streeck 1991).

Like Robert Putnam (1993) I find that the "vibrancy of associational life" is important in promoting different patterns of social solidarity and local politics in Italy. But perhaps as important (if not more) than the actual number of associations is their qualitative features and patterns of interaction. In her book on French peasant organizations, for instance, Suzanne Berger (1972) illustrated how membership in voluntary associations alone did not always promote greater levels of citizenship since some interest groups actually insulated individuals and hindered their participation in politics. In other words, associations differ in terms of their qualitative features and the way they aggregate interests. These differences have a tremendous impact on both local patterns of political and economic behavior and on the types of connections that link local interests and central policymakers.

Thus when analyzing local economies in Italy, I have tried to pay attention not just to associational density but also to the qualitative features of the various local actors. Cohen and Rogers (1992) have argued that secondary associations with certain attributes (i.e., leadership accountability to group membership, encompassingness of group membership, cooperative modes of interaction with other groups, etc.) are more likely to effectively aggregate and represent interests and thus facilitate democratic governance than are other groups with qualitatively different features (i.e., hierarchical intragroup relations, parochial concerns, conflictual politics). Moreover, Granovetter (1973, 1982) has claimed that economic actors linked to one another through many "weak" ties will more easily be able to receive and transmit information than will actors linked by a few "strong" ties.

Building on both bodies of research I argue that local firms and unions are more likely to remain open and responsive organizations when they are tied to other like-minded entities through multiple, horizontal ties. Economic actors



embedded in these dense but relatively egalitarian networks will more easily be able to share information, form alliances, build trust,<sup>21</sup> and resolve conflicts through negotiation than will other firms and unions situated in more fragmented or hierarchical networks. As a result, different socio-political networks will shape the understandings, resources, and hence the strategic choices of local economic actors in very different ways.

Policentric, polarized, and hierarchical local economies differ along three critical dimensions: the structure of intergroup relations, patterns of associationalism, and linkages to central policymakers.

Policentric systems are characterized by a dense network of encompassing and open associations and interest groups that are linked to one another through many horizontal ties. In these local systems, interests are well organized and communication among different groups is quite frequent. Often different actors within these localities combine to pool resources to purchase collective goods and/or upgrade local infrastructures. Whenever disagreements or conflicts arise between any two local actors, chances are that communication between them will not breakdown entirely but will continue through indirect, third-party channels. Moreover, other interest groups or associations within the network will most likely attempt to repair ties between the conflicting parties by facilitating negotiations or arbitrating differences. Finally, the horizontal ties linking local actors to one another are stronger and more numerous than any connections linking local interests to central authorities or national representatives in Rome. In fact, vertical linkages are employed not as a conduit of communication or control for the central authorities but as a channel through which local interests can express their interests and tap centrally-controlled resources to finance local endeavors.

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<sup>21</sup> See Charles F. Sabel, "Studied Trust : Building New Forms of Co-operation in a Volatile Economy," in Industrial Districts and Local Economic Regeneration, Frank Pyke and Werner Sengenberger, eds., (Geneva: Institute for Labour Studies, 1992) for an interesting discussion on the role of trust in economic adjustment strategies.

Polarized local economies are in many ways the mirror image of policentric systems. These subnational orders are characterized by a small number of more parochial and organizationally underdeveloped interest groups and associations usually clustered together into two opposing camps. While the ties linking organized actors or groups within each camp are quite strong, linkages between the two clusters are often tenuous. Thus whenever conflicts arise between groups associated with the two opposing camps, they often develop into zero-sum struggles in which gains achieved by one side are seen as equivalent losses by the other. Because local groups and associations are organized into two competing camps, they are unable to repair relations or mediate disputes between conflicting parties. Moreover, vertical ties linking the two opposing local clusters of associations to national-level actors are much stronger than any connections among the various local actors. As a result, local actors often implement strategies developed at the national level and may become dependent on the center for resources and information. In certain cases, local struggles reflect or serve as proxies for conflicts between opposing national interests.

Hierarchical local economies are hybrid systems. Like the policentric orders, they, too, may be characterized by numerous organized interest groups and associations. But the linkages among the local actors are fragmented and hierarchical. As a result, information does not flow freely among local actors but rather is limited to communications between actors linked by vertical ties. Relations among the various local groups are also segmented into different hierarchically organized clusters. Actors situated at the higher levels of each vertical chain often possess more power and resources than actors at lower levels. To the extent that conflict arises among actors either within or across clusters, they are resolved not through negotiation among peers but through top-down decisionmaking.

By structuring relations, information flows, and the distribution of resources among local actors in different ways, these divergent socio-political networks create alternative patterns of economic behavior. Thus, during the

recent wave of industrial restructuring, Italian firms and unions embedded in poliocentric networks sought to negotiate the changes underway whereas local economic actors situated in polarized settings often engaged in highly conflictual struggles. Industrial change in hierarchically organized areas varied depending upon whether patrons at the upper levels of the chain could either insulate lower-level actors from the changes underway or provide them with new opportunities or resources. When both these strategies failed, lower-level actors were often left to fend for themselves in the new competitive environment.

In sum, notwithstanding the absence of a "strong state" capable of developing and implementing a coherent economic policy, Italian firms and unions did not simply reinvent themselves de novo. Instead, both their understanding of the challenges they faced and their ability to respond were shaped by the local context in which they were embedded. This accounts for both the diversity of economic patterns currently present in Italy as well as some of the country's current maladies.

Although historical legacies of political and economic development shaped the original attributes of the three subnational orders I describe, economic actors are not simply shackled by local historical legacies. Instead, they actively pursue an array of different strategies and struggle with one another over competing strategic choices. These periodic political struggles among local economic actors may reconfigure and recombine legacies of the past in ways that alter the local economic order. These struggles may be instigated and heavily influenced by broader shifts in the nature of competition, technological innovation, and/or government regulation. But the basic cleavages, resources, and range of potential strategies are primarily determined by the existing local organizational resources and structure of socio-political relations already at hand.

I liken this process to quilt-making, where fragments of old textiles are recombined and sewn together into new arrangements. Except for the thread holding together the patchwork, all the other ingredients are old, or rather, have already been around but in different forms, previously serving different

functions.<sup>22</sup> Of course, the pattern is also new but it, too, is constrained by the array of available fabrics and colors already at hand.

The next section illustrates my argument about the socio-political embeddedness of economic activities by examining the reorganization of Italy's textile industry. This section focuses in particular on the divergent adjustment patterns manifest in Italy's two leading woolen textile districts : Biella and Prato. If any industry is associated with Italian economic success, it is this sector. In the 1980s, "Made in Italy" came to dominate the international fashion industry. Still today, Italy remains a leading exporter of textile and apparel products. Closer examination of how this so-called "sun-set" industry, which was once closely identified with Italian "backwardness" (Frey, 1975) was reorganized into a highly competitive sector, sheds light on the more general process of industrial adjustment in Italy. As with the case of the automobile companies examined elsewhere,<sup>23</sup> Italian textile companies adjusted not in a uniform way, but by pursuing a variety of alternative strategies. Yet regardless of which strategy individual companies followed, all were shaped by their local settings. In other words, the viability of the alternative strategic choices promoted by local managers and union leaders at individual firms depended as much on the underlying socio-political character of the local economy as on their own core competencies and resources.

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<sup>22</sup> Both Wolfgang Streeck and James Coleman, in discussing very different problems, have argued that structures or associations developed for one (perhaps non-economic purpose) can later serve an entirely new and important role in regulating socio-economic behavior. See Wolfgang Streeck, "On the Institutional Conditions of Diversified Quality Production," in Beyond Keynesianism: The Socio-Economics of Production and Employment, Egon Matzner and Wolfgang Streeck, eds., (London: Edward Elgar, 1991), pp. 21-61; and James Coleman, "Social Capital in the Creation of Human Capital," American Journal of Sociology, vol. 94 Supplement, . . . . : S95-S120.

<sup>23</sup> Richard M. Locke, Remaking the Italian Economy, (Ithaca, NY: Cornell University Press, 1995, forthcoming): ch. 4.

### 3.1 A Tale of Two Districts : Industrial Adjustment in Biella and Prato

During the 1970s the textile industries of most advanced industrial nations were in crisis. Changing patterns of international competition, increased labor costs, higher energy and raw material costs, more restrictive government environmental and safety regulations, and altered consumer tastes all combined to render obsolete the traditional model of economic development based on low wage, semi-skilled workers producing large series of low-medium quality standardized goods in integrated mills (OECD 1983; Toyne et. al. 1984). The crisis of the textile industry in Western Europe and the United States appeared so severe that scholars and policymakers alike were beginning to theorize about a "new international division of labor" in which "mature" industries like textiles would be ceded to developing countries which possessed an abundance of low-wage, unskilled labor and thus, could manufacture labor-intensive products like textiles at lower costs (Froebel, Heinrichs, Kreye, 1980; OECD, 1983).

The Italian industry was hit particularly hard by this crisis for a variety of reasons, including the high costs of labor and credit, inefficient state intervention, structural weaknesses in the sector's productive structure, and the fragmentation of the industry's distributional networks (Turani, 1976; Federtessile, 1980). As a result, Italian firms that had once dominated the European market: Lanificio Rossi, Lanificio Rivetti, Marzotto, Lebole, Cantoni, Bassetti, etc. all suffered tremendous financial and organizational problems. Some went bankrupt while others were either rescued by the state or acquired by competitors.

By the end of the 1980s, however, the situation of the Italian textile industry appeared completely reversed. Far from fulfilling the expectations of those theorizing of a new international division of labor, firm-level profitability, productivity, and investment increased dramatically among Italian textile firms over the course of the decade (Confindustria, 1990). Both large integrated firms as well as industrial districts of small- and medium-sized companies successfully adjusted to the new terms of international competition. In fact, by the end of the decade, Italy emerged as one of the industrialized

world's leading textile-apparel exporters, with about ten percent world market share and exports totalling 16.6 billion dollars in 1988.<sup>24</sup>

To understand this shift in the Italian industry's fortune, we need to look more closely at the adjustment strategies pursued by individual firms and even clusters of firms (districts). There already exists an extensive literature on the reorganization of the Italian textile industry.<sup>25</sup> What is clear from this literature is that not all firms or even districts were able to successfully adjust to the altered competitive conditions of the 1980s. While some firms and/or districts were able to rationalize their production processes, redeploy workers, up-grade and diversify their products, and thus maintain or even enhance their competitiveness, others failed to restructure and either went bankrupt or were taken over by their competitors. Based on repeated visits to several textile areas throughout Italy, and scores of interviews with local managers, unionists, business association leaders, and local government officials, it became evident that the ability of individual firms or even cluster of firms (districts) to successfully adjust depended upon the qualitative features of the local economy within which these firms are embedded.<sup>26</sup>

To illustrate the important role local socio-political networks played in shaping the adjustment strategies of firms we now turn to a more in-depth look at the reorganization of two of Italy's leading textile districts -- Biella and Prato.

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<sup>24</sup> Market share data was obtained from United Nations Statistical Office, International Trade Statistics Yearbook and Data (New York: United Nations, 1992). Export revenues are reported in Confindustria Previsioni dell'economia Italiana. Il settore tessile-abbigliamento, (Rome: Confindustria, June 1990): 89-90.

<sup>25</sup> For a sampling of this work, see Camuffo and Comacchio 1990; Canziani 1989; Lazerson 1988; Roverato 1989; and Trigilia 1989.

<sup>26</sup> See Richard M. Locke, Remaking the Italian Economy, op. cit. : chapter 5, for more on this.

### 3.2. Negotiated Restructuring in the Biellese

The Biellese, a small area located in the mountainous north-west section of Piedmont, is the birthplace of Italy's industrial revolution. The "Manchester of Italy,"<sup>27</sup> this area consists of 83 small towns and villages and about 200,000 residents. Yet, despite its isolation and fragmentation, the Biellese area is a leader in the world's textile industry.<sup>28</sup> Approximately 49,000 people are employed in the 5,000 firms located in the area. The vast majority of these firms (3,000) and workers (35,000) are employed in the woolen textile industry. In 1990, the textile industry produced 6,000 billion lire in sales, of which one-third was exported to West Germany, Japan, France and the United States.

Yet Biella was not always successful. During the 1970s the local textile industry was in trouble. Many firms threatened bankruptcy and a number actually shut down. Changing conditions of international competition (NICS with lower labor costs are very strong in the textile-apparel sector) combined with increased labor and energy costs and altered consumer tastes to render traditional integrated textile firms uncompetitive. Only through a massive process of industrial restructuring and technological innovation was the industry restored to health.

Major restructuring began in the early 1970s, as a result of a natural disaster (in 1968 a flood devastated the plants of many firms) but continued throughout the decade in response to the above-cited changes in the economy. In essence, traditional integrated firms found themselves consistently outcompeted in an ever more volatile and competitive market. Rigidities in manufacturing and industrial relations practices posed serious problems for firms whose markets demanded frequent product innovations and flexible production processes. Most

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<sup>27</sup> This term was taken from Pietro Secchia, Capitalismo e classe operaia nel centro laniero d'Italia (Rome: Editori Riuniti, 1960).

<sup>28</sup> These and the following figures are taken from Confindustria, Previsioni dell'economia italiana. Il settore tessile-abbigliamento (Rome: Confindustria, June, 1990): 69; and Unione Industriale Biellese, La realta' socio-economica biellese (Biella: Unione Industriale Biellese, 1987).

firms restructured, but some did not. Only those firms that reorganized themselves, however, were able to survive.

Traditional integrated mills restructured themselves by spinning off various phases of their productive cycles, preserving internally only those phases of production in which they were most specialized and/or which most distinguished their products. This process not only changed the industrial geography of the area, eliminating all firms with over 500 workers<sup>29</sup>, but also provoked the emergence of many new, smaller firms specializing in specific phases of the production process. Thus while some traditional mills maintained the spinning and weaving phases of production, other newly formed firms performed the dying and finishing phases of the cycle.

Increased specialization promoted innovations in product and process technologies for both the original and the newly formed firms. Economies of scale and scope were achieved no longer by producing long series of standardized products but rather through the use of new, more versatile looms that permitted weaving mills to produce smaller batches of woollens efficiently. While the new dying and finishing operations also invested in new technologies, they were able to reap economies of scale by aggregating orders from several weaving mills into large batches.

A network developed among the different firms engaged in the various processes of production. Cooperation developed not only between traditional weaving mills and their dying or finishing subcontractors but also among the original spinning and weaving mills that often used the same suppliers. This, in turn, further promoted increased product and process innovations as firms exchanged experiences and techniques with new machines, new fibers, and new finishing processes. For instance, several manager-owners of textile plants in the Biellese explained that before buying a new machine or initiating a new process they visit other local plants in the area that already have installed these innovations and conduct tests with their own products. Moreover a visit to

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<sup>29</sup> See Paolo Ferla, "Progresso tecnico e nuove forme organizzative nel comparto laniero Biellese. Analisi empirica di alcuni casi significativi," Tesi di Laurea, Facolta' di Economia e Commercio, Torino, 1981.



the local Rotary Club, Unione Industriale Biellese (business association), or certain trattorie (local restaurants) reveals how Biellese textile managers are constantly exchanging information and sharing experiences with new techniques and technologies.

Cooperation and collective innovation have not only improved product quality but also have altered production strategies. Each firm now produces specialized products for specific market niches. Moreover while Biellese textile firms are still quite competitive with one another and very protective of their autonomy, they nonetheless unite both to buy raw materials (setting up purchasing cartels) and to sell their finished goods (organizing a biannual fair, IdeaBiella, during which they display their latest products).

The unions played a significant role in these developments. Although most (but not all) restructured firms reduced their workforces, the transition from integrated to specialized production was usually negotiated with the union. The union had a say in who was let go or put in cassa integrazione and was consulted on plans to introduce new technologies. It also negotiated a territorial collective bargaining agreement with the local business association in order to extend union strength in certain firms to other weaker sectors of the workforce. Not only did this territorial agreement protect workers, it also strengthened the unions by preventing whipsawing, enhancing workers' solidarity, and extending union agreements in large firms to newly formed smaller enterprises.<sup>30</sup> As a result, the decentralization of production that took place in this area did not undermine union strength. Workers who remained within the restructured firms were often retrained in the use of new process and product technologies while many who exited firms set up their own small businesses, buying machines from, and often working as subcontractors for, their original bosses.

Labor relations are not always tranquil in the Biellese area. There have been a number of strikes and even a few factory occupations. The local union is militant and factory owners are far from complacent about it. The point, however,

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<sup>30</sup> Based on interviews with the secretary of the Chamber of Labor, Biella, May 25, 1987. See also Marco Neiretti, ed., L'altra storia : sindacato e lotte nel Biellese, 1901-1986, (Rome ; Ediesse, 1987).

is that this process of radical economic change was negotiated by management and the unions. While both sides recognize their different interests and express very different ideologies, they nevertheless bargain and reach accords regulating the processes of industrial adjustment. As one local business leader put it, the unions and the managers united in a "pact for development" in order to save the local industry and preserve jobs. The major confrontations between labor and management occurred, not in restructured firms, but rather in those businesses that did not restructure and thus were forced to close.<sup>31</sup>

Cooperation continues between the unions and business leaders. Joint efforts emerged to promote research and development, technical education and job retraining, and improved infrastructures -- all aimed at enhancing the competitiveness of local industry.<sup>32</sup> The results have been positive. Record sales and profit rates for firms have been matched by high rates of employment (people actually commute into the Biellese to work!) and above average union membership rates. In sum, the reorganization of the local textile industry in the Biellese appears to have generated mutual gains for both labor and management. A more careful examination of why these economic actors pursued this negotiated strategy raises a number of interesting questions about interest group politics in this period of rapid industrial change. But before we attempt this, let us look at a second, very different case of industrial restructuring. Examination of this second case will not only provide us with a comparative perspective through which to better understand the case of Biella but also highlight the important role local socio-political networks play in shaping the strategic choices of economic actors.

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<sup>31</sup> Neiretti, L'altra storia.

<sup>32</sup> Based on an interview with the head of the local business association, Unione Industriale Bielese, May 22, 1987.

### 3.3. The Rise and Decline of "Diffuse Industrialization": The Case of Prato

Like Biella, the textile industry of Prato has a long historical tradition, dating back to the 14th and 15th centuries. And like Biella, the textile industry in Prato was characterized since the 19th century by a dual structure in which many small, family-operated firms co-existed with large integrated mills (e.g., the Fabbricone).<sup>33</sup> After World War Two, the larger mills fell into a deep crisis and were forced to restructure. Of a total of 25,000 textile workers employed in the Prato area, 6,500 were fired and 8,500 were transformed into part-time workers (Lorenzoni, 1980: 519). In many cases, the owners of the ailing integrated mills sold or lent the idle looms to their redundant workers. As a result, between 1949 and 1954 the ratio of factory-operated to home-operated looms fell from 4:1 to 1:6 (Ritaine, 1990: 64). This restructuring process created the conditions for a decentralized system of production with considerable capacities to respond flexibly to sudden fluctuations in demand. Demand growth led to increased subcontracting rather than new investment in plant and equipment. Conversely, the costs of a recession were spread over a larger number of small producers.

The emergence of this decentralized model of production in the 1950s was accompanied by the consolidation of particular economic actors (i.e. the impannatori or transformers). The impannatori designed the products, bought the raw materials, and distributed various phases of the production process among small, specialized producers -- for example, rag-collectors (stracciaroli), spinners, warpers, weavers, dyers, finishers, etc. Moreover, they also coordinated all logistics and dealt with customers, both national and international (Lorenzoni, 1980).

Until the 1950s, the Pratese district was specialized in the production of lana cardata (carded wool). This was produced through the regeneration of rags. Due to the particular raw material employed, the Pratese textile firms traditionally produced standardized, low value-added products used for low

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<sup>33</sup> See Avigdor 1961 for more on Prato's history.

quality, dark men's suits and coats, or for military blankets and uniforms. During the 1960s and the 1970s the impannatori engineered the strategic repositioning of the industry towards higher quality, multi-color fabrics (tessuti fantasia) which could be used in women's clothing. They also promoted the introduction of new technology and of new products using nylon-based fibers.

As a result of these innovations, the Prato textile district grew in population, employment, and turnover throughout the 1970s. (See Trigilia 1989 for more on this spectacular growth.) Its success was strictly tied to its capacity to increase product quality without compromising the quick response, efficiency, and flexibility associated with its decentralized organization of production.

However, the situation began to change in the second half of the 1980s. Small artisanal firms declined rapidly in this period : From more than 15,000 in 1981 to around 10,000 today. Carded wool producers were particularly hard hit as is evidenced by the dramatic decline in carded wool production (from 70% of total production to 40%). Changing consumers' preferences (i.e., many of the impannatori's clients began to demand lighter, plain-colored, "combed wool" (lana pettinata) as opposed to the heavier carded wools traditionally manufactured by Prato's mills) and insufficient investment in new process technologies provoked the crisis of the local textile industry. But the particular structure of relations among the various local actors appears to have exacerbated it.

Most observers explain Prato's dramatic shift in economic fortune as the product of failed cooperation among the local economic actors who were unable to develop a mutually agreeable way of regulating market entry and stabilizing demand. According to Harrison (1994), the crisis of the Pratese textile district is due to the blocked circulation of information concerning market changes. While family or friendship ties favor the diffusion of innovations regarding production techniques and new technologies, the transfer of information about the evolution of demand clashes with an insurmountable limit: the social structure of production. In fact the role of the impannatori is one of pure intermediation between producers and clients. Their source of competitive advantage consists in the acquisition and exploitation of information concerning different buyers, the

evolution of demand and of consumers' tastes, and the different degrees of technical efficiency achieved by various producers within the district. Faced with a radical contraction in demand, these intermediary actors have an incentive to retain, rather than circulate, this information, and thus to shift the burden of adjustment to the weaker smaller firms and artisans. In fact, the impannatori pit local producers both against one another and against external suppliers in an effort to cut costs and delivery times. In this way, a price war was sparked - - a particularly difficult one for those artisans and small entrepreneurs who had invested in new technologies and were thus burdened by debt.

By describing this prisoner dilemma-like situation, where it is theoretically optimal for everybody to cooperate, but each actor individually finds it most convenient to defect, Harrison (1994) highlights an important aspect of Prato's crisis. Yet the basic assumption underlying Harrison's analysis -- namely that problems of coordination are a natural consequence of an excessive fragmentation of production -- appears theoretically simplistic and empirically incorrect, especially given that other areas of "diffuse industrialization" (e.g., Biella) were able to restructure successfully. To get at this deeper issue of why economic actors with almost identical structural attributes (i.e., size, technology, labor force demographics, etc.) cooperate in certain localities but not others we must look beyond simple quantitative measures like number of firms and average firm size and focus instead on how local-level actors like firms and unions are linked to one another. This is the essential contribution of the micro-political approach outlined above.

### The Cases Revisited

The underlying socio-political structure of the Pratese district is highly polarized and lacking in horizontal links capable of generating cooperative behavior among the various economic and social actors. Although Prato's associational life is fairly rich, its social-political networks are organized around two distinct poles: One dominated by the local Communist Party (now PDS);

the other by the local financial and economic elites, which rotate around the Unione Industriali and the Cassa di Risparmio. Membership in artisan associations and trade unions is very high: Out of 1,000 workers 864 belong to one of these associations. This ratio is much higher than the national average of 392 out of 1000 (Ritaine 1990 : 70). Membership in the employers' associations is less high: In the mid-1980s only 55% of all firms were organized by employers' associations (Trigilia, 1989: 316). However, this figure is higher now than it was in the early 1960s, when only 20% of the small firms and 45% of medium firms belonged to the employers' associations (Avigdor, 1961: 77).

The "red" sub-culture exerts an important role of coordinating various working-class organizations and associations. In fact, the PCI-PDS has controlled, either by itself or in coalition with the Socialist party, all local, provincial and regional governments since WW II. The CGIL is by far the strongest trade union and PDS-affiliated cultural associations like the ARCI are very active in organizing public debates and conferences. The "red" pole embraces most of the smaller artisans as well. In 1986, artisans comprised about 17% of the PCI's total membership (Trigilia, 1989: 286).

The second pole is constituted by an economic and financial elite, formed by the owners of larger woolen mills, the impannatori, and some of the richer artisans. Most of them are members of the Unione Industriali Pratese and have close ties with the local Cassa di Risparmio, which is in turn linked politically to the Christian Democratic Party.<sup>34</sup> Horizontal links between the two poles are almost non-existent. This is in part due to the radicalism of the "red" political sub-culture in Tuscany, as opposed to the more reformist spirit which prevails in near-by Emilia Romagna (Trigilia, 1986; Freschi, 1994).

Industrial relations, although well-developed in Prato, did not manage to promote social integration among the local economic actors. In fact, during the

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<sup>34</sup> The disproportion between social control, exerted by the "red" pole, and economic power, in the hands of the alternative pole, is so great that the regional communist leadership decided to create a new financial institutions, i.e. Fiditoscana, to control directly the credit to the artisan sector (Ritaine, 1990: 71).

1950s the reorganization of the local economy (away from vertical integration and towards decentralized production) took place against the strong opposition of the local trade unions. As a result, collective bargaining, which had been extremely lively soon after WWII, completely broke down and unionization rates among blue-collar workers dropped from about 90% to 64% between the early 1950s and the early 1960s (Trigilia, 1991: 303-5). During the 1960s and 1970s, the unions were able to rebuild their strength and re-assert themselves within the local industry. However, both territorial and company-level collective agreements generally addressed only traditional issues, such as wages. In other words, the local trade unions have concentrated their energies and resources on "remunerated flexibility" and rarely engaged in negotiating over more qualitative issues such as work reorganization and flexible working time schedules (Trigilia, 1989: 312-3).

This analysis of the underlying socio-political structure of the Pratese explains why all concerted attempts to improve the districts' competitiveness appeared to have failed (Balestri and Toccafondi, 1992). On the one side, the economic and financial elite are only weakly coordinated by associations such as the Unione Industriali and the Cassa di Risparmio. On the other side, the "red" associative network espouses an ideological stance which renders cooperation with employers over industrial restructuring difficult. Since there are no structures for horizontal coordination, interactions between these two poles are purely contractual and top-level.

The contrast with Biella could not be greater. In the Biellese, the local industry relied upon the existence of a well-developed and horizontally structured network of socio-political groups and associations capable of coordinating strategies, diffusing information, and mediating conflicts among both the growing number of small and medium-sized firms as well as between the employers and the local unions. As a result, the increased fragmentation of the local industry did not lead to the productive overcapacity and under-investment in both new technologies and skill formation manifest in Prato. Instead, the reconfiguration of the local industry was regulated and somewhat offset by

various arrangements (e.g., territorial collective bargaining agreements between the local union and employers association) and institutions (e.g., Banca Sella, the Centro Studi Oreste Rivetti, the Unione Industriale Biellese) which provided various collective and/or quasi-public goods (e.g., training, marketing and purchasing assistance, and technical advice) and mediated potential conflicts among the local social actors.

What mattered most, however, was not simply the overall number of local secondary associations -- Prato has as many (if not more) local groups and clubs as Biella -- but rather the way relations among these groups were structured. Although the two districts possess similar (decentralized) industrial structures, their underlying socio-political structures differ significantly. In fact, the characteristics of the Biellese socio-political networks resemble the polycentric ideal type described above. A dense network of associations and interest groups are linked together by multiple, horizontal ties which facilitate communication and the pooling of resources among local economic actors. In contrast, the underlying socio-political structure of the Pratese approximates the polarized ideal type described above. Interest groups and associations cluster around two opposite poles, with very tenuous linkages to one another. Thus, communication and cooperation among local actors affiliated with either camp are extremely difficult to maintain and conflicts between the two often develop into zero-sum struggles.

In sum, the divergent strategic choices of individual firms and local unions in the two districts were shaped as much by the qualitative features of the socio-political context in which they were embedded as by their own organizational resources and capacities.

#### 4. Conclusion: Beyond Italian Exceptionalism

The dominant paradigm in comparative political economy focuses on the institutional arrangements and/or patterns of state-society relations of different nation-states to explain divergent patterns of industrial politics.



According to this view, national institutional arrangements are important because they shape the goals that organized interest groups like unions and business associations can pursue. National institutional arrangements structure not only the strategic interaction among economic actors but also their access to government policy making (Immergut, 1992). As a result, scholars working within this tradition emphasize the institutional context of industrial politics, including the organizational characteristics of unions and business, the legal framework of industrial relations, the alternative systems of financial intermediation, and the linkages to the state.<sup>35</sup> Because scholars working within this tradition are interested in showing how nationally distinctive institutional configurations mediate the effects of common international pressures very differently, they often assume a certain degree of homogeneity within different nation-states.

This paper focused instead on the alternative adjustment strategies present within the same country, even within the same industry. By analyzing the divergent patterns of adjustment in two of Italy's most famous textile districts, i.e. Biella and Prato, I stressed the internal heterogeneity manifest within a single national economy. And rather than focus on the organizational attributes of national interest groups and/or particular features of different institutional arrangements, I concentrated on the strategic choices of micro-level actors and the underlying socio-political features which shape these choices.

Although present within the same country, local economic actors are embedded in very different local economies which are, in turn, characterized by alternative patterns of associationalism and socio-political relations. Firms and industries situated in localities with particular socio-political attributes (e.g., dense but relatively egalitarian networks of well developed associations and interest groups) adjusted to changing world markets in a more negotiated

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<sup>35</sup> See, for example, Wolfgang Streeck, Social Institutions and Economic Performance: Studies of Industrial Relations in Advanced Capitalist Economies (London: Sage, 1992); Kathleen Thelen, Union of Parts: Labor Politics in Postwar Germany (Ithaca, N.Y.: Cornell University Press, 1991); and Lowell Turner, Democracy at Work: Changing World Markets and the Future of Labor Unions (Ithaca, N.Y.: Cornell University Press, 1991).

manner whereas companies embedded in localities with more limited local resources experienced more conflict. The point, in short, is that a variety of different subnational patterns of industrial politics coexist within Italy and that these localistic patterns are worthy of study.

But this is not only an Italian phenomenon. To the extent that other national governments also appear to have lost macroeconomic control over their economies, and given that today, countries as diverse as Sweden, Germany, and the United States -- national models Italians once sought to emulate -- are beginning to resemble Italy in terms of institutional fragmentation and economic decentralization, the Italian case may indeed provide more general lessons for students of comparative political economy. In fact, the plurality of patterns of industrial organization described in Italy appears to be present in other national economies as well. Gary Herrigel (1994) has described alternative patterns of industrial order in the German mechanical engineering industry and Annalee Saxenian (1994) has done the same for the American semiconductor sector. Others have described these patterns for a variety of other industries in several advanced industrial nations as well (See, for example, Porter, 1990).

Thus, while local patterns of industrial politics may appear to be more pronounced in Italy given the country's peculiar process of political-economic development, they nonetheless exist in other countries with very different institutional arrangements and historical traditions. What is happening in Italy is not exceptional, but rather indicative of more general trends sweeping across all advanced industrial nations. In the same way that I have sought to identify ideal-typical patterns of industrial politics in Italy and to analyze the key variable underlying these different local orders, new research in comparative political economy must begin to compare seemingly analogous subnational patterns across nations. This would allow us to better grasp the underlying sociopolitical factors shaping the strategic choices of local economic actors in these apparently similar subnational systems. Once we better understand the determinants and consequences of each of these microlevel patterns, we can analyze the different mixes or distribution of these subnational orders within

nations. This second step would allow us to see whether or not, and if so how, national institutions shape the various interactions among and distributions of local economic orders across countries.

Only if one or a particular set of economic patterns emerges as dominant in a given country should we return to the convention of comparing industrial politics in terms of national models. If such a model or set of models is identified, we will be on our way toward reconstructing national models that highlight rather than obscure the dynamic relationship that exists between microlevel strategies and national regulatory institutions. If not, we must construct completely new typologies, based perhaps on more local patterns of industrial politics, to guide further comparative research and theorizing.

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