

**Artisan Associations and Small Business Development in the
'Third' Italy**

by

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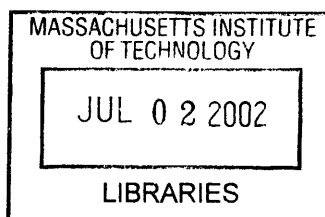
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ABSTRACT

Over the past two decades, small firms have become the main targets of policies aimed at promoting economic growth and employment in developing countries. Various projects, programs, and public policies have focused on small and micro-enterprises, as part of a more encompassing social-policy strategy of reducing poverty and unemployment. Moreover, the brilliant economic performance, over the last three decades, of small businesses in central and northeastern Italy and in other regions in Europe has showed that small and micro-enterprises can also promote ‘serious’ industrial and economic development.

Despite this growing interest, the current debates on small business development are not completely satisfactory with respect to two instances. On the one hand, the conception of small firm assistance in terms of ‘welfare’ and social-policy interventions focuses on the inability of small businesses to bear the costs of formalization and observing tax, environmental, and labor standards. In order to generate employment and revenues for the poor, small businesses have to be protected, subsidized, and exempted from the labor, fiscal, and environmental legislations.

On the other hand, the literature on industrial clusters and small businesses in Italy and Europe often confines itself to descriptive models of the present functioning of the clusters, and derives best-practice lessons for small businesses development that are frozen in time and space, since they ignore the development trajectories of successful small business clusters and industries. Unfortunately, this strand of the literature is usually silent on how small businesses and dynamic industrial clusters moved from a situation of low-productivity, low compliance with the regulations, and high degree of informality and achieved international competitiveness.

This paper contributes to the discovery of alternative trajectories of successful small business development, by exploring how small firms in Emilia Romagna (Italy) actually grew into formality, respected labor and regulatory standards, and became internationally competitive. This study analyzes how artisan associations have supported the rise of a dynamic small-scale industry in Emilia Romagna in the aftermath of the Second World War. A central argument of this paper is that the deliberate, proactive, and

persistent support of the CNA, the dominant artisan association in Emilia Romagna with a strong leftist political identity, lies at the heart of the brilliant economic performance of the Emilian small and artisan firms. The association provided political representation and, both production-targeted and administrative services to the artisan firms during a period of great political instability, economic stagnation, and social unrest.

Overall, the CNA pursued a three-pronged approach to small business development. First, it provided political representation to an otherwise silent and individualist social group, such as self-employed workers and the artisans. This enabled small entrepreneurs to influence policy decisions affecting their activities and, more importantly, to pool resources so as to widen market opportunities and improve competitiveness. Second, the association buffered the impact on small businesses of the fiscal, accounting, and labor legislations. It did so both by mediating with the public authorities the interpretation and the enforcement of these regulations, and, more importantly, by providing administrative (accounting, payroll, fiscal counseling) services and production-targeted (producers' consortia, industrial sites, innovation centers) activities which enabled small businesses to comply with the formal regulations. Third, the CNA promoted the introduction of a formal system of industrial relations also for the artisan sector, thus favoring the institution of formalized labor relationships between small businesses and the labor unions.

As a result of this three-pronged strategy, three developmental processes have emerged over time: the process of *formalization* of small businesses, the progressive *upgrading* and *rationalization* of the management of the firms, and the positive influence of *solid industrial relations* in both preventing the diffusion of a lowest-cost competitive strategy and fostering the respect of labor standards among small firms. In sum, the multipronged, proactive, and persistent activity of the CNA has enabled and supported over time the Emilian artisan firms to pursue the so-called 'high-road' to small business development.

Thesis Supervisor: Judith Tendler

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Introduction

1. Crafting Capitalism: Artisan Associations and Small Business Development in the 'Third' Italy

Over the past two decades, small firms have become the main targets of policies aimed at promoting economic growth and employment in developing countries. Various projects, programs, and public policies have focused on small and micro-enterprises, as part of a more encompassing social-policy strategy of reducing poverty and unemployment. This renewed interest for supporting small businesses generally derives from three beliefs. First, developing countries as a whole benefit from having a robust small firm sector, because it creates employment and sustains a large and diversified private sector. Second, the emergence of a strong small firm sector requires direct external support, because small businesses suffer disadvantages in the market as a consequence of their size. Third, small firm support programs have been justified more in terms of their welfare impact than their economic efficiency. Usually, international donors and government agencies support small firms as a way to create job opportunities for the disadvantaged and targeting aid at the poor (Humphrey and Schmitz, 1996).¹

Moreover, the brilliant economic performance, over the last three decades, of small businesses in central and northeastern Italy and in other regions in Europe has showed that small and micro-enterprises can also promote 'serious' industrial and

¹ Humphrey, J. – Schmitz, H. 1996. *The Triple C Approach to Local Industrial Policy*. In *World Development*, Vol. 24, No. 12, pp. 1859-1877, 1996.

economic development. Despite this growing interest, the current debates on small business development are not completely satisfactory with respect to two instances. On the one hand, the conception of small firm assistance in terms of 'welfare' and social-policy interventions focuses on the inability of small businesses to bear the costs of formalization and observing tax, environmental, and labor standards. In this view, small firm support is mainly an instrument to preserve and create jobs, no matter if poor jobs in poor firms, rather than as a policy to promote economic development. The resulting policy advices point out the need to grant special exemptions or substantial reductions of taxes and other costs related to the respect of environmental and labor regulations. In order to generate employment and revenues for the poor, small businesses have to be protected, subsidized, and exempted from the labor, fiscal, and environmental legislations.

On the other hand, the literature on industrial clusters and small businesses in Italy and Europe often confines itself to descriptive models of the present functioning of the clusters, and derives best-practice lessons for small businesses development that are frozen in time and space, since they ignore the development trajectories of successful small business clusters and industries (Humphrey, 1995).² Unfortunately, this strand of the literature is usually silent on how small businesses and dynamic industrial clusters moved from a situation of low-productivity, low compliance with the regulations, and high degree of informality and achieved international competitiveness. As Tendler (2002)³ has suggested, the study of the evolutionary sequence of these dynamic small

² Humphrey, J. 1995. *Industrial Reorganization in Developing Countries: From Models to Trajectories*. In *World Development*, Vol. 23, No. 1, pp. 149-162, 1995.

³ Tendler, J. 2002. *Small Firms, the Informal Sector, and the Devil's Deal*, in *IDS Bulletin*, Vol. 33, No. 3, July 2002.

business histories might reveal how to promote small firm development, and –in contrast with the ‘welfare’ and social-policy approach– increase the rule of law, protect worker rights, and enable small businesses to become more efficient, produce high quality goods, and meet fiscal, labor, and environmental standards. This paper contributes to the discovery of these alternative trajectories of successful small business development, by exploring how small firms in Emilia Romagna (Italy) actually grew into formality, respected labor and regulatory standards, and became internationally competitive.

In this study I will analyze how artisan associations have supported the rise of a dynamic small-scale industry in Emilia Romagna in the aftermath of the Second World War. The central argument of this paper is that the deliberate, proactive, and persistent support of the Confederazione Nazionale dell’Artigianato (CNA), the dominant artisan association in Emilia Romagna with a strong leftist political identity, lies at the heart of the brilliant economic performance of the Emilian small and artisan firms. I will focus the analysis on the development of the small-scale industrial structure, mainly based on artisan firms, in the two provinces of Bologna and Modena, at the heart of the so-called ‘Third Italy’ (central and northeastern Italy).

As Humphrey and Schmitz clearly indicate, “In spite of the growing interest in industrial clustering, our knowledge of how they develop and what factors induce them to take one trajectory of growth or another remains weak” (Humphrey and Schmitz, 1996)⁴. This paper attempts to fill this gap in the literature by studying the contribution of the Confederazione Nazionale dell’Artigianato (CNA), the second largest Italian artisan

⁴ Humphrey, J. – Schmitz, H. 1996. *The Triple C Approach to Local Industrial Policy*. in *World Development*, Vol. 24, No. 12, pp. 1859-1877, 1996.

association with a strong leftist orientation,⁵ to the rise of a dynamic small-scale industry in the Emilia Romagna region during the troubled decade of the 1950s. In fact, the association provided political representation and, both production-targeted and administrative services to the artisan firms during a period of great political instability, economic stagnation, and social unrest, after the end of World War II.

On the whole, the CNA pursued a three-pronged approach to small business development. First, it provided political representation to an otherwise silent and individualist social group, namely self-employed workers and the artisans. Second, the association buffered the impact on small businesses of the fiscal, accounting, and labor legislations. It did so both by mediating with the public authorities the interpretation and the enforcement of these regulations, and, more importantly, by providing administrative (accounting, payroll, fiscal counseling) services and production-targeted (producers' consortia, industrial sites, innovation centers) activities which enabled small businesses to comply with the formal regulations. Third, the CNA promoted the introduction of a formal system of industrial relations also for the artisan sector, thus favoring the institution of formalized labor relationships between small businesses and the labor unions.

As a result of this three-pronged strategy, three developmental processes have emerged over time: the process of *formalization* of small businesses, the progressive *upgrading* and *rationalization* of the management of the firms (Chapters III and IV), and the positive influence of *solid industrial relations* in both preventing the diffusion of a lowest-cost competitive strategy and fostering the respect of labor standards among small

⁵ The Confartigianato is the largest national artisan association with 521,000 members in 2001; CNA is the second with 350,000 member firms in 2001 (Source: CNA, Ufficio Statistico Nazionale).

firms (Chapter V). In sum, the multipronged, proactive, and persistent activity of the CNA has enabled and supported over time the Emilian artisan firms to pursue the so-called ‘high-road’ to small business development.

1.2. Another “Success Story” of Small Business Development?

In this paper I will focus the analysis on the ‘traditional’⁶, administrative, and burden relieving activities of the CNA such as, bookkeeping, payroll, labor counseling, and fiscal services, because their performance-enabling and developmental impact on small firms is usually ignored by the current literature on small firms support (Chapters III, IV, and V). As I will show in Chapter IV with respect to the fiscal services, these administrative services provided a ‘soft’ entry into the realm of the formal economy, because they assisted small businesses during the intermediate stages between complete informality and the progressive regularization of all the activities of the firms. In other words, what makes the approach of the CNA really different from the usual policy-advice on small firms support, is the fact that the payroll, labor counseling, fiscal, and accounting services progressively enabled small firms to comply with the tax, accounting, and labor legislations, rather than simply exempting member firms from the compliance with the law.

⁶ The directors of the CNA usually call the payroll, labor counseling, fiscal, and accounting services ‘traditional’, because these are the first services that the association started to provide shortly after the end of World War II and they still represent the core activities of the CNA. In this paper I will keep this terminology, even though the reader should be aware of the fact that the provision of these administrative services is quite unusual for the majority of the small business support programs; especially if we consider that the CNA was pioneering these activities in the 1950s and the literature on small firms support has started to recognize the importance of the administrative services only recently. In this sense, the payroll, labor counseling, fiscal, and accounting services actually represent an ‘innovative’ approach to small business development.

This is not to deny the importance of the prevailing policy advices on small business development such as the creation of producers' consortia, credit cooperatives, industrial parks, or innovation centers. Actually, as I will concisely point out in the concluding chapter, these more production-oriented activities are also central to this story and CNA was particularly successful in promoting them. But, the developmental impact on small businesses of the centers for innovation and technical assistance, the producers' consortia, and the industrial sites is widely recognized in the literature, and a great number of interesting policy lessons have already been derived from these cases of successful small business development.

What is interesting about this case is that the association adopted quite a different approach to small business development from the usual policy advices in the field of small firms support. Instead of loans, the association provided fiscal, labor, and administrative counseling to small businesses, and constantly negotiated with the local tax offices, the municipalities, and the labor unions the enforcement of the regulations. Instead of reducing the expenses of keeping accounts and preparing pay packets by simply providing financial assistance or often-deserted training courses for the small entrepreneurs, the CNA itself has created a dense network of branch offices to perform these administrative services at lower costs.

Instead of charging small businesses with a nominal fee for the administrative services and lobbying the central government for automatic, proportional to the number of associates, and direct subsidies to sustain the association, the CNA is financially self-sustained and derives on average 70% of its revenues from the services it provides and the remaining 30% from the membership fees. It does so by charging service-fees slightly

below the market price, rather than providing almost for free its assistance and at the same time being dependent on public funds for the survival of the organization (Chapter IV). Instead of simply pressuring the central government for lax labor regulations, the association actively campaigned for the institution of a formal system of industrial relations also for the artisan sector (Chapter V). Instead of giving financial contributions to the firms that commission market research or require consultancy about product, process, or environmental standards, the association has created both producers' consortia and technical centers to disseminate this information among member firms.

As I will argue in Chapters III, IV, and V, this unusual approach to small firms support, centered on the provision of administrative services, presents an initially 'less invasive' and 'minimalist' way of assisting small firms. In fact, payroll, fiscal, and administrative services provide a better sequencing to small business development activities, because they do not require the immediate transformation of the production and marketing processes of the firms in the short run. Rather, this approach supports the progressive administrative upgrading of the firms and favors the smooth transition to a more managerial and strategic way of conducting business. It does so both by disclosing market and productive opportunities not accessible to less scientifically managed firms, and by making the fall back to backward business strategies and irregular employment practices increasingly difficult and easily noticeable by formal authorities and labor unions.

1.3. 'Spontaneous' vs. 'Institutionally Enhanced' Growth

The development of a dynamic small-scale industry in the so-called 'Third Italy' has become a major reference point in the debate on industrial policy (Piore and Sabel 1984⁷; Schmitz and Musyck 1994⁸). In the last three decades, small businesses in Central and Northeastern Italy have achieved international competitiveness and attained high employment standards. Furthermore, the majority of these businesses are local, family-owned, small and micro-enterprises, and concentrated in traditional sectors such as, garment, furniture, metal fabrication, shoes, and food-processing (Pyke and Sengenberger, 1992)⁹. This makes them of special interest to less developed countries (LDCs), where small firms in traditional sectors often fail to achieve similar competitive and employment standards.

A unifying theme of the literature on the 'Third' Italy is that the emergence of a dynamic small-scale industry did not result from a consciously pursued local, regional, or national industrial strategy by the central government. When dealing with the policy implications that can be drawn from this experience, the literature tends to distinguish two phases in the history of the 'Third' Italy: spontaneous growth (1945-1970), and institutionally enhanced growth from 1970 to 2001 (Schmitz and Musyck, 1994)¹⁰. Even

⁷ Piore, M. – Sabel, C. 1984. *The Second Industrial Divide: Possibilities for Prosperity*, New York. Basic Books.

⁸ Schmitz, H. – Musyck, B. 1994. *Industrial Districts in Europe: Policy Lessons for Developing Countries?* In *World Development*, Vol. 22, No. 6, pp. 889-910

⁹ Sengenberger, W. – Pyke, F. 1992. *Industrial Districts and Local Economic Regeneration: Research and Policy Issues*, in Pyke, F. – Sengenberger, W. (Eds.), 1992. *Industrial Districts and Local Economic Regeneration*. Geneva. ILO.

¹⁰ Schmitz, H. – Musyck, B. 1994. *Industrial Districts in Europe: Policy Lessons for Developing Countries?* In *World Development*, Vol. 22, No. 6, pp. 889-910

though there is no clear-cut dividing line, these analyses tend to emphasize the importance of policy intervention and of local institutional actors, such as local banks and municipalities, in the later rather than the earlier growth phase.

Unfortunately, this interpretation of the development of the Third Italy provides really fascinating descriptive models about the functioning of Central Italy's small-scale industrial structure during the second phase of growth (1970-2001), but yields very little policy advice for developing countries, where small firm clusters are at best embryonic and the real policy challenge is to put small businesses on the upgrading path. Furthermore, the distinction between two phases of growth, first a mainly 'spontaneous' phase and second a more policy-conscious one, is questionable in at least two instances: first it remains almost silent on an important part of the history of Third Italy because it underestimates the contribution of the artisan associations such as the CNA in creating and supporting small businesses during the first phase of growth. Second, by restricting the importance of public support to the second phase of growth it focuses the analysis only on a specific subset of local institutions, namely the local banks, the municipalities, the producers' consortia, the training institutions, and the centers for innovation. All these institutions played a crucial role in providing credit, industrial areas, physical infrastructures, social services, better access to input markets, skill upgrading, and technology transfers.

The problem is that all these particular local institutions required the pre-existence of a self-sustaining concentration of small businesses in order to work out their developmental effects. They all required a minimum concentration of industrial activity and know-how in order to speed up innovation, enter new markets and thus consolidate

growth. What is often omitted, or at best only succinctly mentioned, in these analyses is how small businesses in Third Italy reached the critical mass of economic activity that later on gained the support of local institutions, and what institution actually lies behind the 'spontaneous' phase of growth.

In the attempt to sharpen our understanding of the origins of the small businesses in the 'Third' Italy, the main argument of this paper is that the CNA is the institution that actually supported the rise of a dynamic small-scale industry in Emilia Romagna during the so-called 'spontaneous' phase of growth. As I will show in Chapters I and II, the association had already established itself as the most reliable reference point for the Emilian small firms since the end of World War II. More importantly, the producers' consortia, innovation centers, credit cooperatives, and all the others local institutions usually described by the literature, actually resulted from the deliberate, multipronged and persistent activity of the CNA (Conclusions). This is not to deny or undermine the importance of these institutions in promoting small business development. Rather, this paper shows that all these initiatives did not spontaneously come 'out of the blue', but resulted from the consciously pursued strategy of the CNA (Chapter II).

The rise of an internationally competitive small-scale industry in the provinces of Bologna and Modena is particularly interesting to researcher and practitioners in the field of small business development, especially in developing countries, for two reasons. First, it represents a case of unprecedented and sustained economic development based on small and family-managed enterprises in traditional, initially low-tech, and labor-intensive sectors. Second, the origins of this spectacular process of catching up are mainly political, and date back to a period of social and political unrest in the aftermath

of the Second World War. In fact, the social and political instability relative to the reconstruction of the then fragile democratic institutions and the post-war economic disruptions, are part of the discouraging scenario under which small businesses, and their representative associations, ignited the developmental mechanism.

Again, the central argument of this paper is that the deliberate, proactive, and persistent support of the CNA, the dominant artisan association in Emilia Romagna with a strong leftist political identity, stands behind the startling economic performance of the Emilian small and artisan firms. The association provided political representation to the artisan firms during a period of great political instability and social unrest. In fact, it influenced the policy decisions regarding the artisan sector by supporting the introduction of the so-called Artisan Act (Law 860, July 25th 1956), which increased the degree of formal regulation of the sector, rather than simply providing an exempting-all and protectionist special regime for the artisan firms.

Overall, the three-pronged approach of the CNA to small business development provided political representation to an otherwise silent and individualist social group, namely self-employed workers and the artisans. This enabled small entrepreneurs to voice their concerns and aspirations, and influence policy decisions affecting their activities (Chapter II). Second, the association buffered the impact on small businesses of the fiscal, accounting, and labor legislations (Chapters III and IV). It did so both by mediating with the public authorities the interpretation and the enforcement of these regulations, and, more importantly, by providing real administrative and production-targeted services which enabled small businesses to comply with the formal regulations. Third, the CNA promoted the introduction of a formal system of industrial relations also

for the artisan sector, thus favoring the institution of formalized labor relationships between small businesses and the labor unions. As I will argue in Chapter V, this unusual behavior for a small-producers' association derives both from the Communist political roots of the association and, more interestingly, from the strategy of progressive independence and political autonomy of the CNA from the Communist Party (PCI) and the left-wing labor unions (CGIL).

All these developmental processes, the CNA-driven process of *formalization* of small businesses, the continuous administrative *upgrading* and *rationalization* of the management of the firms supported by the prompt availability of the real services of the association, and the institution of a *solid system of industrial relations*, prevented the recourse to irregular business and employment practices, two typical elements of a lowest-cost competitive strategy. As the same time, these three developmental mechanisms stimulated the adoption of technological innovations, the introduction of both product quality and labor standards, the research of joint solutions to the common marketing and production problems, three typical elements of Italy's high-value competitive strategy. In other words, the multipronged, proactive, and persistent activity of the CNA enabled and supported the Emilian artisan firms to pursue the so-called 'high-road' to small business development.

Before discussing how this representative associations-driven interpretation of small business development relates to the prevailing debates in the literature, we need to put the foregoing analysis in perspective and acknowledge both the impressive economic performance of the Emilian small-scale industry and the substantial contribution of the CNA in supporting this performance.

2. Artisan Associations-Driven Economic Development (1945-2001)

The provinces of Bologna and Modena represent an impressive case of small business development fostered by artisan associations. These two provinces of Emilia Romagna stand at the heart of the so-called 'Third' Italy and their small-scale industrial structure has achieved international competitiveness, despite the discouraging social and economic perspectives of the post-World War II period. Furthermore, the fact that the presence of the Communist Party and of the CNA in these areas has always been particularly strong supports the idea that, far from being spontaneous, or market-led, the growth of the Emilian small-scale manufacturing industry was both fostered and regulated by the dense territorial network of the CNA.

In 1955, Modena was among the eight Italian provinces (out of 95) with the worst unemployment rate, and had more than 2,850 (13% of the total) families below the poverty line in the urban area alone. Nonetheless, from 1951 to 1981, the employment in the province increased by 290%, as compared to 215% for Emilia Romagna and to only 146% for the rest of Italy. Since the end of the 1950s, the province of Modena has substantially enjoyed a state of full employment. The real dimension of the process of catching up is even more impressive if measured in terms of *per capita* income. In 1950, Modena ranked 40th in the list of the 95 Italian provinces for *per capita* income. In 1965,

it scored 28th in terms of *per capita* income, and finally reached the top of the list in 1980, thus becoming one of the wealthiest areas of Europe¹¹.

In addition, the dynamism and international competitiveness of the provincial industrial structure can be easily gauged in terms of exports. In fact, Modena was the fifth largest exporter (ceramics, tool machinery, garment, biomedical equipment) among the Italian provinces in 1987, and exports accounted for 9,000 billion liras in 1994. Similarly, Bologna also shows an extraordinary economic performance, with a 481% *per capita* income increase from 1951 to 1972. This substantial rise of the provincial income is even more remarkable if we consider that during the same time in Turin and Milan, the most prominent Italian industrial areas, *per capita* income rose only by 375% and 368% respectively. As a matter of fact, by 1972 Bologna had already outperformed the most industrialized areas of the country (Northwestern Italy), where government policies targeted large industrial groups to stimulate a process of 'serious' economic development.

The process of economic transformation took place during the decade from 1951 to 1961, when the share of GDP of agriculture dropped from 41% to 23% for the province of Modena, and industry became the dominant productive sector, employing 41% of the active population in 1961, as opposed to only 25% in 1951. Throughout the 1950s the number of industrial activities of the province rose from 31,000 to 42,000 units. More importantly, 90% of these businesses were small artisan firms, employed less than 10 workers, and 60% had a strong affiliation with the CNA.

¹¹ Muzzioli, G. 2000. *Cent'anni di economia a societa'. Modena dal 1900 al 2000*. In Associazione Mario Del Monte. 2000. *Rapporto sulla situazione economica e sociale della provincia di Modena 2000*. Modena. Universita' degli Studi di Modena e Reggio Emilia.

Even more interestingly, the majority of these small manufacturing activities resulted from the massive layoffs of unionized workers to decapitate the then reorganizing labor movement in large factories. As a matter of fact, the large number (12,000) of unionized workers fired during the 1950s resorted to self-employment for economic survival and became the backbone of the Emilian small-scale industry. In sum, the political struggle between the large industrialists and the labor movement stands at the origins of this small scale manufacturing industry. And, as I will show in Chapters I and II, the CNA played a crucial role in providing political representation and real services to this multitude of self-employed workers during the troubled decade after World War II.

The contribution of the CNA to the rise of a small-scale industry in the provinces of Bologna and Modena has been pervasive, highly articulated, and sustained all over the period 1945-2001. It has evolved over time according to both the changing needs of the firms and the challenges of the external socioeconomic and institutional environment. Indeed, the approach of the association to the provision of administrative services has changed over time, according to the evolution of the legislation on small businesses.

For example, the association assisted the artisan firms during the transition to a more modern and performance-demanding fiscal system after 1973. As I will show in Chapter IV, the fiscal reform of 1973 has shifted the role of the association from fiscal negotiator with the local tax institutions, to provider of fiscal and financial counseling under a more formalized fiscal regime. In this case, the transformation of the external legal environment has reshaped both the role of the CNA, as fiscal intermediary and provider of accounting services, and the managerial and administrative behavior of small

businesses, with positive effects on both the further formalization and rationalization of the management of the firms.

To have an idea of the extensive contribution of the CNA to the development of a dynamic small-scale industry in the provinces of Bologna and Modena, we can simply consider that from 1945 to 2001 the CNA associated on average 60% of the artisan firms of the two provinces. For example, in 2001 the CNA of Bologna associated 15,277 small businesses, out of the 24,953 artisan firms of the province (61%), while the CNA of Modena represented 12,329 firms, out of a total number of 23,576 artisan firms¹² (52%). Even more impressive are the volumes of the services provided by the association and the level of territorial decentralization of the organizational structure. In fact, in 1995 the CNA of Bologna provided accounting services to 9,000 artisan firms, prepared the payroll for over 20,000 employees of member firms, and processed more than 24,000 fiscal declarations, just to mention the core services of the association. In order to manage this considerable volume of services, the CNA of Bologna had 48 branch offices all over the province, had 500 employees, and organized member firms in 21 major sectoral federations such as metalmechanic, garment, or engineering firms¹³.

Similarly, in 2001 the CNA of Modena provided accounting services to 9,239 artisan firms, prepared a monthly average of 27,000 pay packets, and processed more than 39,768 fiscal declarations both for member firms and their employees. The organizational structure of the association entailed 50 branch offices, 542 employees, and

¹² Source: CNA Emilia Romagna, Ufficio Statistico Regionale.

¹³ Confederazione Nazionale dell'Artigianato. 1995. *1945-1995. Cinquant'Anni di CNA a Bologna*. Bologna. CNA – Associazione Provinciale di Bologna.

24 sectoral federations¹⁴. In sum, the forgoing analysis suggests that the impressive economic performance of the small-scale manufacturing system of the Emilia Romagna is strictly connected to the political activities and real services of the CNA. In fact, the statistical evidence suggests that the CNA was by far and large the single most influential institution to support the development of small businesses both with real services and political representation since 1945. Far from being spontaneous, or market-led, the growth of the Emilian small-scale manufacturing industry was both fostered and regulated by the dense territorial network of the CNA. Indeed, it was artisan association-driven.

3. The Argument in Perspective

The central argument of this paper, namely that the proactive, multipronged, and persistent support of the CNA to small business development stands at the heart of the rise of a dynamic small-scale industry in Emilia Romagna, relates to at least three different scholarly debates. First, it relates to the vast literature on the development of the ‘Third’ Italy and, more indirectly, on the industrial districts. Second, this paper provides a different interpretation of the role of Politics, Clientelism, and State intervention in supporting micro-enterprises and the artisan sector. Third, it suggests the existence of a third approach to small business development between the two *‘burden-relieving’* and

¹⁴ Source: CNA – Associazione Provinciale di Modena.

'strategic' ones prevailing in the literature (Tendler, 2002)¹⁵. In the remainder of this section I will succinctly discuss how this paper relates to these three scholarly debates, leaving open to the reader a more complete survey of these issues.

3.1. The 'Third' Italy and the Industrial Districts

Interpretations of the origins and characteristics of small-firm development in the 'Third' Italy have been progressively refined over time. In the early stages, the prevailing idea was that the growth of small firms derived principally from the attempts of larger firms to circumvent restrictions imposed by the unions (Sabattini, 1972)¹⁶. However, further research showed that productive decentralization for the purpose of cutting labor costs could not really explain the relationships of increased specialization and division of labor among small firms and the presence of economies of scale external to the individual firm, but internal to the industrial cluster (Brusco, 1975)¹⁷ such as the emergence of suppliers who provide raw materials and components, new or second-hand machinery and spare parts; or the emergence of a pool of wage workers with sector-specific skills. Furthermore, changes in technology and the growth of demand for non-standardized

¹⁵ Tendler, J. 2002. *Small Firms, the Informal Sector, and the Devil's Deal*, in *IDS Bulletin*, Vol. 33, No. 3, July 2002.

¹⁶ Sabattini, C. 1972. *Relazione Introduttiva*. In FIM-CISL, FIOM-CGIL, UILM-UIL Emilia Romagna: *Atti Convegno piccole e medie aziende metalmeccaniche industriali e artigiane*. Bologna. 1972.

¹⁷ Brusco, S. 1975. *Organizzazione del lavoro e decentramento produttivo nel settore metalmeccanico*, in Di Bergami, F.L.M. (EDS). Bari. De Donato.

goods increased the autonomy and innovativeness of small firms (Becattini 1987¹⁸; Brusco 1982¹⁹; Piore and Sabel 1984²⁰).

At the same time, another line of research, more sociologically and institutionally oriented, stressed the importance of social, cultural, and political factors such as the prevalence of extended families, the existence of a common ethic of work among the local community or a similar political identity. This body of literature clearly indicates that there is a relationship between small-firm growth and the social context in which it occurs. For example, the literature describes as a key element of the social structure of the Third Italy the usually low degree of proletarianization of workers. An agrarian class structure with a strong presence of non-wage work (sharecropping, peasant, and tenant farming), an equal land distribution, the persistence of extended families, and a tight network of small artisan and commercial centers provided workers with diversified sources of income (from agriculture, trade of handicrafts, and wage work in the industrial factories) and increased their independence from the condition of the labor market (Bagnasco, 1977)²¹. As a result, 60% of the population working in agriculture had experience of small entrepreneurship (Capecchi, 1990)²².

Within this same research framework, scholars such as Bagnasco (1988)²³ and Trigilia (1986)²⁴ have shown the importance of both local institutions, such as the

¹⁸ Becattini, G. 1979. *Dal 'settore industriale' al 'distretto industriale'. Alcune considerazioni sull'unita' d'indagine dell'economia industriale*, in *L'industria. Rivista di economia e politica industriale*, No. 1.

¹⁹ Brusco, S. 1982. *The Emilian model: Productive decentralization and social integration*. In *Cambridge Journal of Economics*. No. 6.

²⁰ Piore, M. – Sabel, C. 1984. *The Second Industrial Divide: Possibilities for Prosperity*, New York. Basic Books.

²¹ Bagnasco, A. 1977. *Tre Italie: La problematica territoriale dello sviluppo italiano*. Bologna. Il Mulino.

²² Capecchi, V. 1990. *A history of flexible specialization and industrial districts in Emilia Romagna*. In Pyke, F. et al. (Eds.), 1990, *Industrial Districts and Inter-firm Cooperation in Italy*. Geneva. ILO.

²³ Bagnasco, A. 1988. *La costruzione sociale del mercato*, Bologna. Il Mulino.

²⁴ Trigilia, C. 1986. *Grandi Partiti e Piccole Imprese*. Bologna. Il Mulino.

municipalities, the local banks, or workers' cooperatives, and common political subcultures in providing a favorable socioeconomic environment to small business development. According to Trigilia (1986), while the Communist Party (PCI) dominated almost all local authorities in the "Red Italy" (Emilia Romagna, Tuscany, and Umbria), the Christian Democrat Party controlled the equivalent areas in Veneto, Friuli, and Marches (the "White Italy"). In the 'red' areas, a tight network of unions, friendly societies, and cooperatives developed in close collaboration with the municipalities. In the 'white' areas of the Northeast, unions were less present, but there was a network of rural savings and other banks, agricultural organizations, cooperatives, friendly societies, and charities, all of which were linked to the Church. The customary argument of the literature is that these thick networks of local organizations created two political subcultures that contributed to the formation and persistence of a social and cultural background favorable to small firms.

The central argument of this paper, explicitly that the CNA guided the rise of the Emilian small-scale industry, can be located within this institutional approach. The literature on the 'Third' Italy usually acknowledges the relevance of the artisan and other producers' associations in supporting the growth of small businesses, but then it shies away from explaining the actual functioning of the developmental mechanisms put in place by these institutions. Rather, it dwells on concepts that are interesting, but hard to translate into policy advices, such as 'social capital', 'trust', or 'culture'. Moreover, these highly intangible assets are usually historically determined by the preexisting social, economic, and political conditions, thus leaving underdeveloped regions, which often

lack of the 'correct' mix of culture, social capital, and progressive institutions, with the gloomy perspective of path-dependence and economic backwardness (Putnam, 1993)²⁵.

In contrast, this paper will analyze the developmental processes brought to being by the CNA in organizational, economic, and legislative terms. Nonetheless, politics and ideology have a prominent role in this story, and I will assess their developmental impact in organizational and economic terms, by looking at their influence both on the strategic behavior of the CNA *vis-à-vis* the labor unions, the local institutions, and the other representative associations, and on the mix of services that the association provided over time. In sum, I will analyze politics and ideology in terms of the behavioral constraints and policy opportunities that they provide to the association (Chapter I), rather than considering them intangible and irreproducible factors.

Finally, this paper suggests that the literature on the Italian industrial districts might need to reconsider the contribution of the artisan associations to both the creation and the current functioning of the districts. As a matter of fact, within the limited range of the provinces of Modena and Bologna there are at least five different industrial districts: the district of Sassuolo for ceramics, Carpi for knitwear, Mirandola for biomedical equipment, Modena for mechanic engineering, and Bologna with several industrial sub-systems for producing, measuring, packaging and wrapping machines, or motorcycles. The simple fact that since 1945 the CNA associated on average 60% of the small businesses located in these areas, and that these firms often represented a relevant quota of the industrial clusters, suggests that the association was an important collective actor within these clusters and actively influenced the internal dynamics of these industrial

²⁵ Putnam, R. 1993. *Making Democracy Work: Civic Traditions in Modern Italy*. Princeton. Princeton University Press.

districts. In other words, further research on the role of the association within the Emilian industrial districts might help to better understand to what extent the processes of industrial clustering in Emilia Romagna were ‘spontaneous’ and to what extent they were influenced by the active intervention of the CNA.

3.2. Politics, Clientelism, and the Role of the State

A second debate in the literature relates to the role of the political parties, the State, and of the national legislation in supporting the development of the Third Italy. The prevailing position in the literature is that of the absolute irrelevance of the central government and of politics at the national level in explaining the success of the so-called Emilian model. According to this position, the state simply ignored the phenomenon of Third Italy and did not plan any serious industrial strategy to support the development of small firm clusters.

A slightly different interpretation in the literature of the role of the central institutions (the Government and the Parliament) attempts to account for the anomalous and extensive legislation of Italy in favor of small firms (Weiss, 1988),²⁶ when compared to other industrial countries such as Germany, France, or Great Britain. This special legislation was particularly generous with the artisan sector, because it provided soft loans, an unusually liberal welfare system also for self-employed workers and small entrepreneurs, and more sympathetic fiscal, labor, and administrative regulations for

²⁶ Weiss, L. 1988. *Creating Capitalism. The State and Small Business since 1945*. Oxford. Basil Blackwell.

small businesses. According to Berger (1981)²⁷, this extensive legislation indirectly derived from the commitment among the Christian Democrat governments, the national political elites, and ‘big businesses’ to keep social stability in exchange for conspicuous subsidies to large firms. In this view, the state continues to ignore the phenomenon of the Third Italy, but it indirectly provides subsidized credit and softened fiscal and labor regulations for small firms, in order to acquire the tacit consent of the middle classes, more specifically small producers, to the government’s industrial strategy of heavy support to ‘big businesses’.

A third variant of this debate reads the creation of a favorable legal regime for small businesses in terms of political Clientelism. More specifically, it refers to the political strategy of the Christian Democrat governments of trading *ad hoc*, exempting-all, and more sympathetic regulations and direct interventions in exchange for the electoral support of disparate interest groups such as the petty bourgeoisies and the small producers (Piattoni, 2001)²⁸.

With respect to these different, but not mutually exclusive interpretations of the role of the state, this paper suggests that the rather irrational and highly discretionary national political system, generally associated with high degrees of corruption, growing political clienteles, lack of coherent industrial policies, and schizophrenic sectoral and regional policies, paradoxically provided a favorable institutional framework for the activity of grassroots associations with a clear territorial and political identity, such as the CNA. In fact, as I will show in Chapters II and IV, the discretionary, unpredictable, and

²⁷ Berger, S. 1981. *The Uses of Traditional Sector in Italy: Why Declining Classes Survive*. by Frank Bechhofer & Brian Elliot (EDS). NY. St. Martin’s Press.

²⁸ Piattoni, S. 2001. *Clientelism, Interests, and Democratic Representation. The European Experience in Historical and Comparative Perspective*. Cambridge. Cambridge University Press.

often conflicting nature of both the national political system and legislation on small businesses is what paradoxically enabled the association to campaign for a better and more rational legislation of the artisan sector, intermediate with the public authorities the enforcement of the discretionary, and often uncertain, fiscal and accounting regulations for small businesses, and experiment at the local level new institutional arrangements, such as the provincial health insurance schemes or the credit consortia, to fill the gaps of the existing legislation.

Finally, while the relations between the CNA and its members are originally and prominently political, it seems safe to rule out political Clientelism from this story. As a matter of fact, the ‘red’ small-scale industry of Emilia Romagna has always had antagonistic rather than clientelistic relations with the national governments which, being Christian Democrat, have traditionally denied any sort of direct or indirect support to the ‘Red’ Emilia. This statement becomes clearer if we consider that for 1973 only, three years after the constitution of the Italian regional governments, the ‘Communist’ Regione Emilia Romagna devoted more resources to the regional artisan sector than the Christian Democrat governments had previously done in more than twenty-five years.

3.3. Small Firms Support: the Third Path

Finally, this paper also analyzes the nature of the policies and services for small business development provided by the CNA (Chapter III), and suggests the existence of an additional approach to small firm support, which might complement the prevailing policy alternatives usually enlisted in the current debates on the argument, such as the

“Triple C” (*customer-oriented, collective, and cumulative*) approach promoted by Humphrey and Schmitz (1996)²⁹. As Tandler (2002)³⁰ has shown, there are two prevailing approaches to small firms development: the ‘burden-relieving’ and the ‘strategic’ approaches. While the first one advocates for universalist, exempting, and protectionist interventions in favor of all small firms, because of their inability to survive in competitive markets, the second approach stresses the importance of targeted, performance demanding, problem-specific, and iterative problem solving policies in order to increase the competitiveness of small firms. While the burden-relieving approach usually leads to the stagnation of the local economies because it is unable to stimulate innovation, the strategic approach is often associated with sustainable economic development.

According to Tandler (2002), the ‘burden-relieving’ approach advocates for policies that are “burden-relieving” and “universalist” in that they provide immediate, automatic, universal, and conspicuous exemptions and subsidies to small firms as individual units, regardless of their technological, sectoral, or spatial characteristics. The downside of the burden-relieving approach is that this kind of intervention is often accompanied by the tacit deal between politicians and small firms to provide subsidies and exemptions in exchange for political support. This sort of ‘devil’s deal, condemns small firms to a lower level of productivity, efficiency, and competitiveness in the long run because it makes the introduction of selective and competitiveness-enhancing policies, which impose tight performance standards on firms, less politically appealing.

²⁹ Humphrey, J. – Schmitz, H. 1996. *The Triple C Approach to Local Industrial Policy*. in *World Development*, Vol. 24, No. 12, pp. 1859-1877, 1996.

³⁰ Tandler, J. 2002. *Small Firms, the Informal Sector, and the Devil’s Deal*, in *IDS Bulletin*, Vol. 33, No. 3, July 2002.

By contrast, the ‘strategic’ approach advocates for policies that are sector-specific and strategically identify and remove the obstacles to improved productivity, efficiency, and marketing capabilities. They are strategically targeted to the most capable firms interested in upgrading their production, and require the active involvement of these firms in order to benefit from the public intervention. Unfortunately, small firms associations often devote much effort to pressing for the universalist, burden-relieving approach, rather than for the strategic support. This is usually due to the need of these associations to advocate for policies that benefit all their member firms, independently from sectoral or spatial differences.

With respect to this debate on small firms support, this paper suggests the existence of a second type of ‘burden relieving’ approach; a *developmental burden relieving approach* that relieves and at the same time enables small firms to be competitive and comply with the formal regulations, rather than simply exempting them. This is the case of the ‘traditional’ administrative services of the CNA, which had a ‘burden relieving’ spirit, in recognizing the inability of small firms to comply with the formal regulations, but a performance-enhancing effect in supporting both the formalization and the administrative upgrading of the firms over the long run (Chapters IV, V and Conclusions).

In fact, in the following pages and chapters I will argue that the traditional, administrative, and burden relieving services of the CNA had at least three developmental effects with respect to the process of *formalization* of small businesses, the progressive *upgrading* and *rationalization* of the management of the firms, and the positive influence of *solid industrial relations* in both preventing the diffusion of a

lowest-cost competitive strategy and fostering the respect of labor standards among small firms. In sum, a central theme of this paper is that there is a ‘burden relieving’ approach to small business assistance with desirable developmental outcomes.

4. Research Design and Methodology

As a concluding remark on the methodology of this work, I have focused the analysis on the provinces of Bologna (population: 921,907; area: 3,702 sq km(s); number of municipalities: 60) and Modena (population: 632,626; area: 2,689 sq km(s); number of municipalities: 47) because they constitute an impressive case of small business development fostered by artisan associations. These two contiguous provinces stand at the heart of the so-called ‘Third’ Italy and their small-scale industrial structure has achieved international competitiveness, despite the discouraging social and economic perspectives of the post-World War II period.

My sources of information have been direct interviews (28 in total) with directive and staff personal of the CNA (15) and visits to the national, regional, provincial, and local branches of the association in Rome, Naples and all over Emilia Romagna. I have also interviewed other key informants such as retired entrepreneurs and artisans (6) who joined the CNA soon after Second World War, trade unions leaders (4) at the provincial and regional level, and officials of local authorities (3). I have also consulted an extensive number of primary and secondary sources in the form of internal records, historical documents, sectoral researches, and economic reports produced by the CNA and the other local institutions.

Chapter I

The Communist Roots of Capitalism: Small Business Development and the 'Red' Emilia

This chapter examines the contribution of the Confederazione Nazionale dell'Artigianato (CNA), the second largest Italian artisan association with a strong leftist orientation, to the rise of a dynamic small-scale industry in the Emilia Romagna region. Politics represents the common thread of this story and has exerted an overall positive influence on both the association and the development of the artisan firms. This chapter analyzes the political roots of both the Emilian small-scale industry and of the CNA. In doing so, it first acknowledges the influence of the Communist ideology on the overall strategy of the CNA to small business development, and then analyzes the historical reasons that led to the rise of an internationally competitive small-scale industry with a strong leftist political connotation in the aftermath of World War II.

The origins of the Emilian artisan class and of the CNA are political. In fact, the creation of a politically oriented artisan class in Emilia Romagna dates back to Fascism, when many political activists resorted to self-employment for economic survival as a consequence of the Fascist persecutions. Also the origins of the CNA are political and strictly related to the Resistance Movement and Antifascism. Furthermore, the rise of a small scale manufacturing industry during the 1950s derives from the massive layoffs of unionized workers in large factories to decapitate the then reorganizing labor movement. In brief, the creation of one of the most dynamic forms of capitalism has deep Communist political roots.

During the early part of the last century agricultural workers, peasants and sharecroppers, became involved in rural struggles. Socialist ideas spread in both the cities and the countryside of Emilia Romagna with the establishment of the *Camera del Lavoro* (a type of Italian labor union that represents all the workers in a given territory) and the formation of provincial associations of farm laborers. By 1909, the Socialists represented 40% of the electorate, and when universal male suffrage was introduced in 1913 four provinces in Emilia Romagna (Bologna, Ferrara, Reggio Emilia, and Parma) voted socialist (D'Atorre and Zamagni, 1992)³¹.

The presence of Socialism in rural Emilia Romagna led to the creation of associations and cooperatives and to the diffusion of progressive attitudes. This dense network of cooperatives and associations, along with the anarchist and union elements, is one of the main characteristics of the Emilian Communist Party. This diffused network of leftist representative associations, encompassing both agricultural and industrial workers, explains why by 1948 Emilia Romagna was 'red', with 52% of the votes going to the Communist and Socialist parties as compared to an average of 31% for the rest of Italy (Capecchi, 1990)³².

The pre-existence of a dominant leftist political culture in the region before the advent of Fascism and the Second World War, clarifies why the vast majority of the Emilian small producers and artisans joined the Resistance movement during the Liberation War, despite the usual right-wing political orientation of the middle classes in the rest of Italy. More importantly, it suggests that the Communist ideology influenced

³¹ D'Atorre, P. – Zamagni, V. (Eds.). 1992. *Distretti, Imprese, Classe Operaia. L'industrializzazione dell'Emilia Romagna*. Milan. Franco Angeli.

both the rise of the Emilian small-scale industry and the approach of the CNA to small business development.

The Influence of the Communist Ideology

Organizations tend to preserve and reproduce over time the ideological and organizational features imprinted at the moment of foundation (Stinchombe, 1965)³³. This sort of ‘law of conservation of the original model’ applies also to the Confederazione Nazionale dell’Artigianato (CNA), the second³⁴ largest artisan association at the national level and by far the dominant association in the Emilia Romagna region. One persistent feature of the CNA is the existence of close political ties with the Communist Party (PCI) and of a common ideological matrix with the Confederazione Generale Italiana del Lavoro (CGIL), the labor union of the PCI.

The close political ties with the PCI and the strong leftist ideology of the CNA have greatly influenced the evolution of the association over time. At first glance, we can distinguish four major areas of influence:

- 1) Strategic approach to small business development. According to the Communist ideological roots of the association, small businesses development should not occur at the expense of labor. Rather, the development of small businesses configures itself as a progressive ‘fight against the monopoly of big businesses’.

³² Capecchi, V. 1990. *A history of flexible specialization and industrial districts in Emilia Romagna*. In Pyke, F. et al. (Eds.), 1990, *Industrial Districts and Inter-firm Cooperation in Italy*. Geneva. ILO.

³³ Stinchombe, A.L. 1965. *Social Structure and Organizations*, in March, J.G. et al. (Eds.), 1965. *Handbook of Organizations*, Chicago. Rand McNally.

This highly ideological view of small business development has far reaching implications on the policies and the strategy of the association. First, the idea that the competitive advantage of small businesses cannot rely on the exploitation of the workforce resulted in the constant pressure of the CNA on its members to introduce labor standards. The association did not limit its action to the moral suasion of the member firms, but it also provided payroll and labor counseling services in order to reduce the administrative costs relative to the introduction of labor standards.

Second, the preclusion for ideological reasons of a low-costs competitive strategy, forced both the association and the firms to seek alternative competitive strategies: product and process innovation, the rationalization of the productive process, and the search for more lucrative markets became alternative sources of competitiveness.

Third, the creed of Communist economics that large firms would hinder the development of small businesses by exerting their oligopolistic power over the market engaged the association in a set of highly developmental policies. As a matter of fact, the 'fight against the monopolies' resulted in the creation of consortia for the acquisition of raw materials, the constitution of cooperatives for the provision of credit, the building of industrial sites for the relocation of clusters of artisan firms, the public battle for the nationalization of the electric power, and the campaign to reduce the dependence of small

³⁴ The Confartigianato is the largest national artisan association with 521,000 members in 2001; CNA is the second with 350,000 member firms in 2001 (Source: CNA, Ufficio Statistico Nazionale).

suppliers on a single large buyer, just to name some of the activities of the CNA.

2) Autonomous Decision-Making. The presence of close political ties with the PCI and of a strong leftist culture provided a sort of corporate coherence to the bureaucratic structure of the association. During the early years, the majority of the officials of the association were also active militants of the PCI and had previous experiences as labor union leaders. This strong political and ideological background granted to these officials a more independent and long-term perspective on the issues relative to small business development. The decisions and the policies adopted by the CNA did not passively reflect the interests of the member firms, but resulted from the mediation of the legitimate interests and pressing needs of the artisans with the more encompassing vision of small business development of the Communist Party.

The double accountability of the CNA's officials, towards the PCI and the member firms, enabled the association to undertake unpopular policies that required at the firm level costly adjustments in the short-term but yielded efficiency gains in the long run.

For example, during the early 1960s, the CNA of Modena campaigned for the institution of autonomous labor contracts for the artisan sector. On the one hand, this campaign increased the autonomous bargaining power of the CNA *vis-à-vis* the CGIL and Confindustria, on the other hand it required the constant pressuring of the association on its members to regularize the relationships with their workers and enforce the new contracts.

3) Collective Action. The relative independence and corporate coherence of the bureaucratic structure of the association helped member firms to trust the association and overcome the problems of collective action. As I have mentioned before, the close ties with the PCI and the strong political background of the CNA's officials granted some degrees of independence and autonomous decision making to the bureaucratic structure of the association.

This organizational feature shielded the association from the risk of being patronized by the better-off member firms. The strong political affiliation of the association prevented the wealthiest members from gaining control over the organization and jeopardizing the interests of the other firms. In other words, the exogenous influence of the political variables contributed to keep in balance the internal equilibrium among member firms.

In addition, this characteristic of the organization increased the trust of the associates on the CNA and overcame their resistances to share confidential information with the association. In turn, the trust of the associates towards the CNA's officials enabled the association to safely provide the much needed administrative services. As a matter of fact, the provision of payroll, fiscal counseling, and accounting services relies entirely on confidential information of the firms. Members would not release this information unless they could entirely trust the association.

4) Relations with Local Institutions. The close political ties with the PCI eased the cooperation between the association and the other local institutions, such as the municipalities and the labor unions. Since the end of the Second World

War the Communist Party has been the governing party in almost all the local and regional institutions of Emilia Romagna. Scholars such as Trigilia (1986)³⁵ have shown the importance of a common political subculture in ensuring the cooperation among different institutional actors often representing conflicting views and interests.

For example, during the 1960s and 1970s, the “red” municipalities of Bologna and Modena played a major role in the constitution of industrial sites for the relocation of the artisan firms. The strict cooperation between the municipalities and the CNA was based on shared goals and strategic visions about small business development which had a common root on the Communist political line.

Equally, the association and the CGIL, the communist labor union, were often able to settle labor disputes without resorting to violent struggles or to the judiciary. The common political background allowed the two counterparts to reach a compromise more easily and to maintain even tough disputes within the range of a reasonable bargaining.

In sum, politics and the leftist ideology have shaped the strategic decisions and the policies of the association over time. At the same time, the growth and evolution of the CNA is characterized by the progressive and deliberate effort of the association to acquire more independence from the PCI and the CGIL. The political struggle with the CGIL for the recognition of an autonomous bargaining power of the CNA during the 1960s, the directive passed in 1973 by the general assembly of the CNA about the

³⁵ Trigilia, C. 1986. *Grandi Partiti e Piccole Imprese*. Bologna. Il Mulino

incompatibility between public or elective offices and high-level appointments within the association, and the transformation of the PCI into PDS (Leftist Democratic Party) in 1992 after the fall of the Berlin Wall, constitute the main passages in the history of the CNA towards the progressive autonomy of the association from the PCI and the CGIL.

The relationship between the association, the labor unions, and politics is a crucial one to understand the often-unconventional approach of the CNA to small business development. It will be a recurring theme in the following pages and chapters. However, at this point it seems more useful to investigate the origins of the CNA and search for the historical reasons behind the creation of a leftist politically oriented artisan class in Emilia Romagna.

Fascism, the Resistance Movement and the Origins of the CNA

Why did the majority of the artisans in Emilia Romagna identify themselves with the values and the political ideology of the Left? A first order of explanation has to deal with the deliberate political strategy of the Communist Party.

In the years after World War II the PCI was engaged in drawing up an innovative strategy that contrasted with traditional “roads” to socialism (Brusco and Pezzini, 1991)³⁶. This strategy accorded a crucial role to the policy of fostering alliances between the working class (the proletarian workers of large factories) and the productive “middle

³⁶ Brusco, S. – Pezzini, M. 1991. *La piccola impresa nell'ideologia della sinistra in Italia*, in *Distretti industriali e cooperazione tra imprese in Italia*. by G. Becattini. Florence. Banca Toscana.

classes” such as peasants, small shopkeepers, artisans and small industrial entrepreneurs³⁷.

The Left derived its strategy of alliances from the conviction that there was a pressing need to draw the petty bourgeoisie out of the conservative camp. Fascism had enjoyed an extraordinary consensus among the middle classes. It was therefore an important task for the Left to construct a broad democratic and anti-fascist front, and the middle classes constituted a central pillar of this front.

A second, and more historically grounded, order of explanations dates back to Fascism and to the active participation of the artisans to the Resistance movement in Emilia Romagna.

In 1926, Fascism had banned any sort of association, political party (Law n. 2008), and labor union (Law n. 563) with the exception of the Fascist Corporations. The artisans had to adhere to the Fascist Craftsmen Federation, which was subordinated to the Confederazione Generale Fascista dell’Industria Italiana, the Fascist business association of the large industrialists. Furthermore, in 1928 Fascism had passed a law (March 29, 1928) granting priority for hiring in large firms to members of the Fascist Party over the other workers.

This legislation, along with the systematic repression of any form of political activism, pushed the most politically aware workers and militant antifascists towards self-employment and handcraft. As a matter of fact, self-employment became the last resort for politically persecuted workers who could not find a job in the large firms that were easily controlled by the Fascist authorities. A good indicator of the strict relationship

³⁷ In 1946 at Reggio Emilia, Palmiro Togliatti, the leader of the Communist Party, gave a famous speech entitled “The Middle Classes and Red Emilia” in which he declared, “There is no clash between the

between antifascism and self-employment is the fact that from 1927 to 1943 the Fascist Court in Bologna prosecuted 5,619 antifascists. Among them, 3,899 (69%) were artisans and workers.

The artisans constituted the backbone of the Resistance movement in Emilia Romagna. They provided logistic support to the partisan brigades by hiding guns and munitions in their workshops, printed the clandestine press, often represented the only safe communication network between partisans, and hosted in their workshops the reorganization of the banned Communist and Socialist parties³⁸. During 1943, many artisans played a major role in the constitution of the Committees of National Liberation (CLN), the clandestine common organization of all the democratic parties. Indeed, it is no accident that the three founders of the CNA in Bologna (a barber, a decorator, and a shoemaker) were also members of the CLN as representatives of the Communist and Socialist parties.

Towards the end of the war, and during the first year after liberation, the CLNs were often the only dependable democratic institution capable of reorganizing the civil society at the local level. The Committees of National Liberation presided over the delicate transition to democracy by reconstituting the intermediate institutions such as the labor unions, the municipalities, and a wide range of pluralistic representative associations. Many of the CNA's future leaders³⁹, as members of the CLNs of Bologna

interests that we defend and those of the intermediate social groups.”

³⁸ The history of the Resistance movement in Emilia Romagna is full of anecdotes of barbers whistling the Communist hymn in front of the Fascist authorities, of hairdressers dispatching information among partisan units, of typographers printing the clandestine press.

³⁹ This is the case of Alfredo Tosi, the charismatic leader of the CNA in Modena from 1961 to 1978, who had joined the Resistance movement in 1943 and was politically active as trade union leader and secretary of the PCI in Modena soon after the war.

and Modena, covered delicate political offices within the blossoming local institutions and actively participated to the first administrative elections in March 1946.

During the early days after Liberation, the boundaries between the newly established democratic institutions were blurred. Members of the CLNs constituted hundreds of city councils *ad interim*; at the same time they reorganized the local structures of the CGIL and founded all over Emilia Romagna many independent artisan associations, which would later on federate themselves into the CNA.

The common experience of the Liberation War and the Communist political identity held all these institutions together. The CNLs, the PCI, the CGIL, and the independent provincial associations of the CNA often shared the same men and structures. It is not surprising that on April 22, 1945, the day after the liberation of Bologna, the artisans of the local Committee of Liberation founded the Artigianato Provinciale Bolognese (later CNA), while on July 22, 1945 the CGIL's labor union leader Rodolfo Arcelli became the first president of the Federazione Provinciale Artigiani di Modena (later CNA). As a matter of fact, artisans and wage workers had fought side by side during the Liberation war and shared the same leftist political culture. Moreover, the symbiotic relationships between the CGIL and the artisan associations was perfectly consistent with the PCI's political perception of the artisans, and more generally of self-employed workers, not as "capitalists" but as true members of the working class.

In sum, the leftist political orientation of the CNA is deep-rooted in the history of Antifascism. The Fascist repression of political freedom and civil rights forced thousands of persecuted political activists, not allowed to work in large firms, to resort to self-employment for economic survival. This phenomenon contributed to the formation of a

leftist artisan class in Emilia Romagna eager to support the Resistance war and to actively participate to the reconstruction of the democratic institutions once the war was over. As part of the process of democratic institution building fostered by the Committees of National Liberation, the artisans of Emilia Romagna organized themselves into independent grassroots associations with close ideological and organizational affinities to the then resurrecting leftist labor unions (CGIL). Few months after the end of World War II, on December the 9th 1946, these grassroots associations federated themselves into the Confederazione Nazionale dell'Artigianato⁴⁰, the CNA.

Institution Building under Social and Political Unrest (1945 – 1956)

The early years of the CNA (1945-1956) provide an interesting case of institution building under incredibly difficult economic, social and political conditions. Beside the tremendous physical devastations of the war, the newborn representative associations, such as the CNA, found themselves in a complex and uncertain social and political environment. At the local level, the fragile democratic institutions of Emilia Romagna had to deal with a creeping civil war between ex-partisans and ex-fascists. At the same time, external factors such as the Cold War and the overt interference of the U.S. as the political price of the Marshall Plan, fueled the political instability at the national level.

⁴⁰ On December the 9th 1946, two regional associations, forty-one provincial associations, and twelve local associations (mostly from the Center and the Northeast of Italy) founded in Rome the Confederazione Nazionale dell'Artigianato, the CNA.

As a consequence of these external pressures, the increasing hostility and antagonism between the Christian Democrats and the Communist Party generated internal strives and lacerating scissions within the labor movement and the other intermediate bodies, such as the artisan associations. In addition to this unstable political scene, the high level of unemployment and the intransigent position of the large industrialists with respect to the organizing labor unions resulted in harsh industrial relations, often characterized by violent repression and widespread social unrest.

In brief, the post-war economic troubles, along with political turmoil and widespread social disruption did not represent the most favorable preconditions to economic development and democratic institution building. Nonetheless, it is during the first decade after the end of World War II that the CNA was able to establish itself as the main and most reliable small-producers association in Emilia Romagna. Moreover, it is also during this period that the massive layoffs, subsequent to the ruthless retaliation of the large industrialists against the labor movements of the early 1950s, generated a decisive momentum in the development of a small-scale industry in Emilia Romagna (Sabel, 1982)⁴¹. In sum, it seems not possible to fully understand the strategy and the role of the CNA during the early post-war period without a clear analysis of the political and social climate of the late 1940s and middle 1950s. For this reason, the remainder of this section is concerned with the political and socioeconomic conditions under which the CNA operated, while the other sections of this chapter will analyze the response of the association to this troubling external environment.

⁴¹ Sabel, C. 1982. *Work and Politics. The Division of Labor in Industry*. Cambridge. Cambridge University Press.

A Creeping Civil War

Fascism and the World War II had left behind a completely torn social fabric in Emilia Romagna. Summary executions, personal revenges, and assassinations had occurred during the entire 1946, one year after the Liberation. The province of Modena, with more than three hundred murders in the so-called “triangle of death” between Castelfranco, Piumazzo and Manzolino, was shaken by the continuous showdowns between extremist partisan groups and ex-fascists⁴². For the reciprocal fear of a “red” or “white” *coup d’etat*, both the Communist Party and the Christian Democrats (DC) were still keeping their clandestine paramilitary apparatuses in operation until the end of 1948.

The slowness of the military court in prosecuting Fascist crimes induced many antifascists to resort to personal revenge and assassination. Summary executions ceased only when the leadership of the PCI condemned and expelled the extremist groups⁴³. As a matter of fact, the PCI was under public scrutiny for indirectly supporting these violent groups, and the suspicion of any involvement of the party in these crimes was undermining the credibility of the PCI at the national level. The end of this creeping civil war required the active involvement of the local leaders of the PCI in tracking down these groups and denying any organizational support⁴⁴.

⁴² Muzzioli, G. 1993. *Modena*. Bari. Editori Laterza.

⁴³ During these years, more than 3,500 ex-partisans were processed for those crimes; 647 were arrested, and 514 of them proved to be innocent.

⁴⁴ During 1946, many of the future leaders of the CNA were in charge of the local sections of the PCI. They remember of being asked by ex-partisans from other localities whether they needed someone to be killed, in exchange for the favor they would have to do the same in these other towns.

The Cold War, the Political Elections of 1948, and the Marshall Plan

On April the 18th 1948, the Christian Democrat Party (DC) won the first political elections after World War II. The spectrum of the Cold War and the explicit support of the United States to the Christian Democrats⁴⁵ had characterized the electoral campaign during the several months before the elections. Since the spring of 1947, the United States had been supporting the political campaign of the DC, fearing that the victory of the PCI would have shifted Italy towards the sphere of influence of the USSR. As a matter of fact, the main, though implicit, political conditionality to the participation of Italy to the Marshall Plan was the exit of the PCI from the provisional Italian government.

The political influence of the Marshall Plan on the Italian political scene was greater than its economic impact on small business development, especially in Emilia Romagna. Of the funds provided by the Marshall Plan after the Second World War for the purchase of industrial equipment, 25% went to industry in Piedmont, 28% in Lombardy and only 0.75% to industry in Emilia Romagna. Furthermore, while the Marshall Plan (1948-1951) was crucial for the recovery of the Italian economy and the reconstruction of the industrial base, it had a very little impact on small businesses.

For example, by the end of 1951 the Marshall Plan had provided 610 loans for a total amount of 368 million dollars to large industrial groups, 808 loans for eight million dollars to medium firms, and no loans at all for small businesses. The underlying economic strategy of targeting *national champions* in basic industries had a minimal

⁴⁵ On March the 20th 1948, George Marshall declared that the possible victory of the Communist Party might have been interpreted by the US as the willingness of Italy to back off the European Recovery Plan.

impact on the small-scale industrial structure of the Emilia Romagna. Small businesses simply had no access to the funds of the European Recovery Program. Instead, they had to pull their resources together and rely on the guidance of associations like the CNA to overcome the dire economic situation after the war.

The Scissions inside the Labor Movement and the Artisan Associations

The electoral victory of the DC put an end to the first phase of cooperation between the DC and the PCI and disrupted the political unity of the labor movement. Over the fall of 1948 the Catholic component of the CGIL created the Confederazione Italiana Sindacati Lavoratori (CISL), the labor union of the DC, while the Socialist faction of the labor movement founded the Unione Italiana dei Lavoratori (UIL), under the tutelage of the Socialist Party.

The exacerbated political climate also put an end to the attempts to unify the different artisan associations into a single national representative organism. Since the beginning of 1946, the Confederazione Generale dell'Artigianato Italiano (Confartigianato - CGIA), backed by the DC, and the CNA, supported by the PCI, had been trying to merge into a single association. But, the overheated and highly ideological political struggles of 1948 jeopardized any possibility of reconciliation between the distant positions of the two associations.

On the one hand, the Confartigianato was subordinated to and had close organizational ties with the Confindustria, the business association of the large industrialists. On the other hand, the CNA had a strong affiliation with the CGIL and

Two weeks after this declaration the DC jumped from 35.2% to 48.5% of the votes while the PCI fell from

considered the large industrialists as the exploiters of small businesses. While the Confartigianato conceived the artisan as a small industrialist and restored both the organizational structure and the personnel of the old Fascist Corporation, the CNA identified the artisan as a self-employed member of the working class and had organizational affinities with the Committees of National Liberation and the Antifascist movement.

The Confartigianato had a paternalistic approach to small businesses and sought the support of large firms and special exemptions in the fiscal and labor legislation for the survival of small firms. According to this view, small firms are dependent on large firms both for technological spillovers and the procurement of work. Moreover, they need special legislation to offset their intrinsic weakness. By contrast, the CNA had a more egalitarian spirit in joining together both workers and artisans in the political battles for a better social security system and for the reduction of the oligopolistic power of large firms on the markets for real estate and other intermediate assets. In this view, the vitality and competitiveness of small businesses is impaired by the oligopolistic power of large firms and the lack of a clear regulation of the artisan sector. After the elections of 1948, the climate of reciprocal suspicion and contempt between the DC and the PCI made these two different approaches to small business development mutually exclusive, and inhibited the merger of the two main artisan associations.

Massive Layoffs and the Rise of the Emilian Small-Scale Industry

39.7% to 31%.

The break up of the political alliance between the Christian Democrats and the PCI facilitated the retaliation of the large industrialists against the labor movement during the late 1940s and the first half of the 1950s. Between 1946 and 1952 there were more than 75,000 layoffs all over Italy, often accompanied by the brutal repression of the police of any strike or other form of public demonstration⁴⁶. The level of unemployment in Modena doubled from 25,000 units in 1946 to 50,000 units in 1955⁴⁷ with more than 12,000 layoffs in large plants.

In Reggio Emilia the factories which had employed up to 12,000 workers during the war, employed only 700 in 1952. The Ducati factory in Bologna dropped from approximately 6,000-7,000 workers to 1,300 in 1954; Calzoni, another factory in Bologna, went from 1,600 workers to 130; the Cogne factory in Imola dropped from 2,400 to 600 workers (Capecchi, 1989)⁴⁸.

This wave of massive layoffs responded to the well-articulated strategy of the large industrialists, supported by the conservative political climate, to leverage on the post-war economic stagnation to decapitate the infant labor movement. The repression of the large industrialists was particularly fierce in Emilia Romagna where large metalmechanic firms (Ducati, Calzoni, SABIEM, Minganti, Gazzoni, and Weber in Bologna and Magneti Marelli, Valdevit, Maserati, and Fiat Trattori in Modena) targeted mainly the unionized workers. This is the case of Fiat Trattori in 1955, when 248 out of 320 layoffs concerned members of the CGIL. In other cases, when the level of

⁴⁶ From 1948 to 1954 in Bologna the police repression of the labor movement totaled 2 deaths, 773 injured workers, and 13,935 trials for unauthorized public demonstrations. In Modena the level of social unrest was even worse with 63 workers killed, 3,000 injured, and 91,000 arrested in the short period from January 1948 and July 1952.

⁴⁷ Modena was among the eight Italian provinces (out of 95) with the worst level of unemployment.

unionization was too high, firms like Valdevit, Vismara, or the Fonderie Riunite in Modena with 550 unionized workers out of 560, fired their entire workforce and then hired only non-unionized workers.

The attack on the labor movement was part of the defense strategy of the declining industrial structure of Emilia Romagna, which had been created at the beginning of the century by the local agrarian and commercial elites and had prospered on the autarchic Fascist markets. Short-termism, inexistent technological innovation⁴⁹, reliance on the public procurements for World War II, and minimal labor costs set by the authoritarian regime were the main traits of this industrial oligarchy that found itself unable to compete in the post-war liberalized markets. The harsh repression of the labor movement appeared to these firms as the only viable alternative to drive down labor costs and regain competitiveness.

Surprisingly, this myopic response of these stagnating firms to the post-war competitive environment had unexpectedly far-reaching developmental effects on the consolidation of a small-scale industry in Emilia Romagna. As a matter of fact, the majority of the unionized workers fired during this period happened to be also the most skilled and specialized part of the workforce. For example, 60% of the 248 union workers fired by the Fiat Trattori in 1955 were skilled and highly specialized workers. A large percentage of these unionized workers laid off during these years started their own business, relying on the technical expertise previously acquired in the large firms.

⁴⁸ Capecchi, V. 1989. *The Informal Economy and the Development of Flexible Specialization in Emilia Romagna*. In Portes, A., Castells, M., Benton, L. 1989. *The Informal Economy*. Baltimore. Johns Hopkins Press.

⁴⁹ An inquiry of 1952 among the thirty largest metalmechanic firms in Modena, showed that more than 50% of the machinery in use was obsolete and more than 25 years old. (Francia, M. 1990. *Gli anni della ricostruzione: 1946-1950*, in Golinelli, P. and Muzzioli, G. 1990. *Storia illustrata di Modena*, Vol. III: *Dall'Unità Nazionale a oggi*, Milano. Nuova Editoriale Aiep.

The forced migration from the employment in large firms to self-employment generated a momentum in the consolidation of a small-scale industry in Emilia Romagna. The magnitude of this phenomenon can be gauged by looking at the increase in the number of the firms in the province of Modena during the decade from 1951 to 1961. During the 1950s, the statistics rose from 31,000 in 1951 to 42,000 firms in 1961. More than 90% of these firms employed less than 10 workers, were artisan firms, and had a strong affiliation to the CNA.

In sum, the harsh repression of the labor movement during the 1950s represented a *hidden blessing* for the creation of a competitive small-scale industrial structure in Emilia Romagna. The new generation of small-scale manufacturers had a common background as labor union activists and limited their entrepreneurial skills to their first-hand expertise of the production processes. With respect to the other preconditions of entrepreneurship, they lacked of cutting-edge machinery, safe working places, credit, marketing capabilities, ability to deal with the public institutions, and even raw materials. To first survive and then become internationally competitive, these self-employed workers needed a representative body that could express their political identity, organize on a larger scale the managerial and real services for growth, and act as the intermediary of small businesses with the public institutions and the other relevant economic actors. The CNA provided the answer to all these challenges.

Chapter II

Identity, Targeted Services, and Political Representation: The Three-Pronged Strategy of the CNA

During the troubled decade after World War II, the CNA managed to establish itself as the first artisan association in Emilia Romagna. It accomplished this goal by experimenting a three-pronged approach to small-businesses. First, it provided an unwavering reference point to small-businesses in a politically uncertain and socially fragmented environment. Despite the high level of social conflict and political turmoil of the post-war years, the artisans of Bologna and Modena could always rely on the targeted policies and services of the CNA to reactivate the industrial production and overcome the material shortages caused by the war.

Second, the CNA played an intermediary role between its members and the local institutions. It buffered the impact on small-businesses of the fiscal, sanitary, and labor legislations by negotiating the interpretation and enforcement of these regulations with the local authorities. In some cases, the association filled the gaps of the existing legislation with respect to small businesses by providing at the local level the needed assistance. For example, it organized at the provincial level health insurance schemes for artisans, long before the approval of the welfare legislation.

Third, the CNA provided political representation to the grassroots requests for a specific regulation of the artisan sector and for the introduction of a welfare legislation (pensions, social security, etc.) for small businesses. The association had a tremendous ability to mobilize thousands of self-employed workers for public campaigns and general

strikes. This *mobilizing power* of the association proved to be particularly useful in successfully campaigning and lobbying the political parties for a special legislation for the artisan sector. Without the political representation of the CNA, the voices of usually silent strata of the productive forces would have remained unheard.

Fortunately, this is not the whole story, and there is more to learn from the political strategy of the CNA. Besides the success to provide political representation to otherwise unvoiced social groups, the CNA was able to leverage on the political victories obtained in the fields of social security, taxes, credit, and labor legislation to pressure its members for formalization and for the respect of the new regulations. At the same time, the association organized ‘burden-relieving’ administrative and fiscal services to make this process of upgrading manageable also for small businesses. This is a crucial point in the overall strategy of the CNA and will receive a more detailed analysis in the following pages. For the moment, let us focus on the policies of the association to reactivate the economic activity of small businesses during the difficult post-war years.

Political Identity and the Services for the Economic Reconstruction

How did the CNA was able to associate such a large number of artisans (3,958 for Modena and 8,179 for Bologna in 1946) despite the great political turmoil and social unrest of the years immediately after World War II? A first answer to this question has to deal with the common experience of the Resistance movement and the political background as labor union activists of the majority of the artisans in Bologna and Modena. The leftist orientation of the CNA represented a firm reference point for many partisans soon after the war and labor union activists laid off during the 1950s who had

resorted to self-employment for economic survival. The CNA was the closest representative association to their social and political identity, and the passage from the CGIL (the Communist labor union) to the CNA appeared completely natural to those formerly unionized workers, now self-employed.

However, political identity alone is not sufficient to explain the consolidation of the association during the tormented decade from 1946 to 1956. Self-employed workers might have joined the association mainly for political reasons, but then confirmed their membership according to the benefits and material support that they could derive from the economic activities of the CNA in favor of small businesses.

The economic reconstruction after World War II was particularly difficult for small businesses which were completely cut off from the Marshall Plan. The CNA consolidated its membership base during these years because it targeted policies and services to the reduction of the more troublesome bottlenecks of the production process. It enabled small businesses to overcome the post-war economic shortages and tackle at the aggregate level the most pressing problems of the category.

The most serious threat to the post-war economic recovery was the endemic scarcity of raw materials and of all the other intermediate assets for production. Coke, gas, steel, leather, rubber, and the other raw materials were scarce and rationed by the local authorities. The skyrocketing prices on the black markets made this alternative form of procurement of raw materials not economically viable for further processing. The shortage of raw materials troubled small businesses more than other producers groups because the tiny dimensions of any individual firm allowed for very limited bargaining power with the local authorities.

To overcome the shortage of raw materials and increase the bargaining power of small firms *vis-à-vis* the local authorities and suppliers, the CNA constituted several buying consortia, each for any specific category of artisans. Within eight months from Liberation, the CNA in Bologna had already constituted six buying consortia for joiners, barbers, painters, bicycle repairers, shoemakers, and tailors; the same thing happened also in Modena. Joining these consortia often represented for small businesses the only way to reactivate production and access a relatively cheap and reliable supply of raw materials. The disastrous conditions of the transportation infrastructures, and the reigning anarchy of many of the liberated territories, made the procurement of raw materials extremely dangerous. The trucks of the CNA often needed an armed escort during their trips, and barter rather than monetary transactions was the dominant form of exchange⁵⁰.

The internal organization of these consortia was extremely simple. There was very little scientific management of the stocks of raw materials, and the interested members agreed on the quantity, quality, and maximum buying price on a case-by-case basis. Anyway, it seems reasonable to say that these consortia were crucial to reactivate the production of small businesses. Without their contribution very few individual firms would have been able to stay in business during the early post-war years.

Another major bottleneck to small businesses production was the lack of access to modern equipment. This problem plagued especially the multitude of small-manufacturing activities mushroomed during the 1950s as a consequence of the massive layoffs in large metalmechanic firms. The majority of the skilled workers laid off during

⁵⁰ Giancarlo Negretti, President of the Regional Commission for Handicraft of Emilia Romagna, recalls that in 1945 his first assignment as a CNA official was to escort a truck of grain from Bologna to Milan, and to barter the grain for tires and rubber at the Pirelli's main plant.

this period had very little capital and no access at all to long-term credit. These major financial restraints, along with the impossibility to adopt efficient machinery, represented the main entry barriers to the rise of a small-scale industry.

In this case, the response of the CNA to this problem consisted in a series of agreements with equipment producers⁵¹, to provide both technical assistance and more favorable financing options to the members of the association. As part of the overall approach to this problem, the CNA of Modena instituted an intermediation service for the acquisition of used equipment that could be easily refurbished and put back in operation at low costs. The association constantly gathered information and created a market for second-hand machinery, thus overcoming information asymmetries and lowering transaction costs. Moreover, as part of the agreements with the equipment producers, the used machinery was repaired and tested by these firms at costs below the prevailing market prices.

A third obstacle to an economically efficient production of small firms was the excessive cost of the electric power. The tariff structure of private electric monopolies allowed for price discrimination against small industrial consumers. In 1950, small businesses had consumed only one fourth of the total amount of electricity produced, but they had contributed to three fourths of the total revenues of electric utilities.

To deal with this problem at the local level (during the 1960s the nationalization of electric power will be one of the main political battle of the CNA), the CNA instituted a counseling service first to prevent frauds and abuses on the electric bills of the firms,

⁵¹ Among others, particularly useful were the agreements with the mechanic firm Sogliani and Cremonini in Modena for the lathes and boring machines, and with the equipment producer Grazia in Bologna for the compressors.

and second to help member firms to choose the most appropriate contract to their production needs.

In sum, during the first decade after World War II the 'strategic' services of the CNA were mainly targeted to the removal of the most serious obstacles to the rise of an economically efficient small-scale industry. During this first phase, the provision of these 'production-enabling' services was part of a larger strategy of the association aimed at the political recognition and regulation of the sector.

Advocacy, Intermediation, and Institutional Experimentation at the Local Level

One of the main weaknesses of small businesses is their inability to interact with the public institutions, and negotiate *au pair* with them the regulations and policies that might affect their activity. During the troubled post-World War II decade, the CNA gained consensus among small businesses because of its ability to intermediate and successfully bargain with the local institutions. CNA members greatly valued the ability of the association to buffer the impact on small-businesses of the fiscal, sanitary, and labor legislations and to negotiate the interpretation and enforcement of these regulations with the local authorities. More often, given the lack of a national legislation, the association experimented alternative institutional arrangements and new forms of regulation with the local institutions.

During this period, the association acted as an intermediate body between the artisans and the different local institutions. It represented the institutional *locus* for the reconciliation and reciprocal match between the demands for more favorable fiscal and

labor regulations, welfare, and institutional support of small businesses, and the calls for a strict, and often myopic, respect of the regulations of the local authorities. As I have mentioned in the previous section, the association campaigned for a better repartition of the raw materials and, in 1947, successfully pressured the city council of Modena with a general strike for a more egalitarian distribution of grain to the artisans and the other workers.

However, the CNA did not limit its action to mere claiming, but it often dialogued with the local institutions for the mutually constructive resolution of the most controversial issues. For instance, it agreed with the municipalities the local regulations for the industrial and commercial activities (daily schedule, loading and unloading, etc.) and, more interestingly, negotiated the publicly imposed maximum tariffs and prices for each productive category. Similarly, the association instituted a permanent bargaining table with the local tax offices for the periodical renegotiation of the tax rates relative to the different typologies of small businesses.

These periodical renegotiations of both direct and indirect taxation schemes were often accompanied by general strikes of the artisans in Bologna and Modena⁵². As a matter of fact, the association leveraged on its ability to mobilize the majority of the artisans, to put the local tax offices under stringent political and social pressure during the periodical negotiations. The strategy of bargaining with the local fiscal institutions for lower tax rates, in exchange for the commitment of the association to pressure its

⁵² In December 1947, more than 2000 artisans protested in Modena for more equitable tax rates. Few days later, on December 15th, the Provincial Tax Inspectorate of Modena and the CNA reached a compromise agreement for the fiscal year 1947. On January 11th 1948, after the national manifestation of the CNA, the Ministry of Finance officially recommended to its provincial branches to “evaluate with equity and flexibility” the fiscal condition of the artisans and self-employed workers.

members to become formal and pay taxes, often resulted in more equitable tax schemes for the firms, and in increased tax revenues for the provincial tax offices⁵³.

In some cases, the activity of the CNA went beyond advocacy or political intermediation and entered the realm of institutional experimentation. This happened especially when there was no existing institution or legislation to meet the needs of small businesses. For example, until 1956 there was no welfare legislation for self-employed workers⁵⁴. To provide artisans with the needed medical assistance in case of illness or injury, the CNA instituted health insurance schemes at the provincial level in cooperation with the provincial health and labor offices of Bologna and Modena.

These experimental health insurance schemes provided medical assistance, affordable medications, and a daily subsidy in the case of illness to their members in exchange for a monthly contribution to the insurance fund. The *Mutua Soccorso Artigiani* (1946) of Bologna and the *Mutua Volontaria Artigiani* (1948) of Modena, with respectively 852 and 704 associates, represented the two institutional models for the introduction of a national health insurance system for self-employed workers.

These local health insurance schemes responded with experimental institutional arrangements to the much-felt need of social recognition of small-businesses. Indeed, they granted to self-employed workers the same welfare coverage of dependent workers and insured small-businesses against the high risk of bankruptcy in the case of illness. At the same time, these schemes were not simply ‘burden relieving’, because they required a fair contribution from the members in order to remain financially self-sufficient.

⁵³ See Chapter IV for a more detailed discussion of the fiscal services of the CNA.

⁵⁴ Only in 1956 the Parliament introduced a national social security system for the artisans as a consequence of the continuous political campaigns of the CNA.

In sum, during the troubled decade after World War II, the CNA played an intermediary role between small businesses and formal institutions at the local level. This local intermediation was particularly beneficial for the future development of the firms. On the one hand, the constant bargaining with the local institutions made formal regulations and requirements bearable also for small businesses. On the other hand, the advantageous treatments obtained from local institutions, and the immediate economic benefits (social security, access to raw materials, lower tax rates, etc.) associated with the compliance with the local regulations, attracted small-businesses towards the virtuous circle of compliance with the law, high wages, and increasing productivity.

Political Representation and Social Recognition

One of the main tasks of representative associations is to provide political representation and grant social recognition to their associates. The success of these associations can be gauged by their ability to influence the national legislation affecting their affiliates. With respect to this fundamental task of representative associations, the CNA represents an outstanding example of strong political representation of otherwise silent social groups. In fact, the political activism of the association represented the single most influential factor for the creation of a national legislative body for artisans and small-businesses during the 1950s. The CNA, with thousands of national public demonstrations, general strikes, and more than eight bills presented to the Parliament

between 1950 and 1954⁵⁵, was the prime sponsor and midwife of the legislation on small-businesses passed all over the 1950s.

Holding together several thousands of self-employed workers, usually reluctant to cooperation, harmonizing their disparate needs in a coherent bargaining platform, and mobilizing a multitude of small and independent decision-makers into highly articulated and effective political campaigns, is a remarkable achievement *per se*. Even more striking, is the far-sighted ability of the association to go beyond the mere claims of the artisans for an exempting legislation, lower taxes, and lax regulations, and sponsor a set of legislative packages that subordinated the fruition of social and economic benefits to a higher degree of regulation of the sector. On the one hand, the political activity of the CNA supported the social and civil emancipation of small-businesses by granting access to the welfare system and to special financial institutions. On the other hand, the legislation promoted by the CNA introduced a set of provincial, regional, and national commissions to regulate the sector, and, more importantly, required at least a partial formalization of these activities in order to access the welfare benefits provided by the legislation.

The legislation regulating the artisan sector was created with the successive approval of four different laws:

- Law 949, July 25th 1952, introducing a specific financial institution, the Artigiancassa, for special credit to the artisan sector;

⁵⁵ In 1950, several deputies of the Left with close affiliation to the CNA constituted the Parliamentary Committee for Handicraft and started pressuring the Government with numerous bills regarding the artisan sector.

- Law 860, July 25th 1956, providing the legal discipline for the artisan sector and the dimensional (less than ten employees including family members) and economic (predominance of self-employed labor over capital) characteristics of the artisan firm. The law also instituted a coherent set of intermediate institutions to govern the sector;
- Law 1533, December 29th 1956, extending the national health insurance also to self-employed workers and their families;
- Law 463, July 4th 1959, introducing a national compulsory pension scheme also for self-employed workers and their families.

A common element of all these laws is the fact that the much-needed benefits introduced by this legislative body, such as pensions, health insurance, subsidized credit, demanded an increasing level of integration of the artisans within the formal economy. For example, the extension of the national health insurance also to self-employed workers entailed the institution of provincial health insurance schemes reproducing the model of the Cassa Mutua Artigiani of the CNA. These institutions were in charge of the public registration of the firms and supervised the regular payment of the social security contributions by the artisan and his/her family members. Similarly, Law 463 of 1959, introducing a national pension plan for the artisans, entrusted the INPS (National Institute for Social Security) with the management of a special pension fund⁵⁶. This law required small-businesses to register with the local labor offices in order to have access to the fund. As a result, the local labor offices were allowed to inspect the small firms and check the regularity of the contributions of the artisans.

⁵⁶ This special pension fund was partially subsidized by public contributions.

In brief, the access to the welfare system entailed a higher degree of interaction between public institutions and small-businesses. The increased regulation of the sector involved also higher administrative costs for small-businesses. But, the real benefits of having access to the welfare system and, more interestingly, the prompt provision of administrative (bookkeeping and payroll) services by the CNA made these costs bearable also for small-businesses and rendered the compliance with the law more attractive.

More in general, the legislation passed during the 1950s responded to the pressures of small businesses for a more sympathetic economic treatment of small producers. It was 'universalist' in that it applied to all small businesses, independently of sectoral characteristics, and 'burden-relieving', because it aimed at assisting self-employed workers with subsidized credit, public health insurance, and national retirement schemes. But, at the same time, this legislation represented a first step towards the regulation of the sector. It encouraged small businesses to interact with formal authorities by subordinating the access to the welfare system and to subsidized credit to the respect of the new regulations.

This was a remarkable change with respect to the *status quo* of mutual indifference and diffidence between informal small economic activities and intransigent public institutions. This legislation, if supported by proactive intermediate institutions like the CNA, set the stage for a possible virtuous interaction between demanding lawful small businesses and responsive public institutions, instead of the more common 'devil's deal' between stagnating informal activities and negligent public authorities.

For example, law 860 of 1956 (Art. 12) instituted a set of provincial, regional, and national commissions that were in charge of the sectoral policies for export and

technological innovation of the artisan firms. These public commissions, composed by legally recognized artisans, elected representatives of the artisan associations, officials of the provincial labor offices, representatives of the employees, experts of the credit institutions, and other technical staff, fostered the cooperation and the coordination among these different economic actors. They constituted the common decision board of these different local institutions and accelerated both the decision-making process and the implementation of the sectoral policies for the artisans.

In sum, the legislation of the 1950s was mainly aimed at providing assistance and social recognition to small businesses. At the same time, it increased the degree of regulation of the sector and fostered the dialogue and reciprocal interaction between public institution and small businesses. However, higher compliance with the law and positive small businesses–public institutions relations occurred mainly where intermediate institutions like CNA provided ‘burden relieving’ administrative services and made compliance with the law economically feasible also for small producers. For example, it is no accident that while the artisan sector was experiencing economic stagnation all over Italy (with a decreasing share of the industrial employment from 21.2% in 1951 to 17.8% in 1961) in Emilia Romagna, where the CNA associated on average 62% of all the artisan firms, small businesses represented the backbone of the industrial structure with 91.84% of all the manufacturing activities and 36.3% of the industrial employment.

How did the CNA enable small artisans to comply with the newly established regulations? How did the political victories of the association in granting access to the welfare state also to self-employed workers initiate a constructive dialogue between small

businesses and formal institutions? What policies and services enabled the CNA to successfully intermediate between its members and the public institutions? The next chapters will investigate these issues and focus on the policies and administrative services provided by the CNA that made compliance with the law an economically and administratively manageable task also for small businesses.

Chapter III

Administrative Assistance and Business Upgrading

The legislation on welfare and credit for small businesses of the 1950s represented a first step towards the regulation of the artisan sector. As I have argued in the previous chapter, this legislation made the access to the welfare system and to subsidized credit conditional to the respect of the new regulations. This conditionality stimulated small businesses to enter the realm of the formal economy and increase the degree of interaction with the public authorities. However, this process of initial regularization of the artisan sector did not happen spontaneously. It required the active support of representative associations, like the CNA, in challenging the cultural resistances to formalization and making compliance with the law an economically and administratively manageable task also for small businesses.

How did the CNA enable small businesses to comply with the formal regulations? How did the association manage to lower the economic and administrative costs relative to formalization? And how did it assist member firms during the process? What policies and services of the association rendered compliance with the law manageable also for small firms? The answer to these questions demands the examination of what might be called the ‘traditional’ or ‘burden-relieving’ services of the CNA. It requires the analysis of the administrative services of the association over time. To explain the intermediary and ‘formalizing’ role of the CNA, we need to understand how the assistance to small businesses evolved over time, whether it went through different stages and what were the

institutional arrangements of each stage, and how it influenced the economic performance of the firms.

The main thesis of this and of the next two chapters is that the administrative services of the CNA enabled small businesses to comply with the law and increased their degree of participation to the formal economy. This process of ‘formalization’, intended as the progressive attraction into the formal economy of an increasing share of the economic activities of the firms (de Soto, 1989, 2000)⁵⁷, went through different phases, following the evolution of the fiscal and labor legislation. The fiscal and welfare reforms of the 1950s and 1970s, which entailed stricter regulations of the sector, represented the main external stimulus to the progressive upgrade of the firms. These reforms transformed several times the institutional arrangements between the firms, the CNA, and the public institutions and, at the same time, involved the reorganization of the administrative services over time. In some cases, such as the fiscal reform of 1973, the new legal framework fostered the organizational growth of the association, faced with the soaring demand of its members for the managerial and auditing services required under the new fiscal regime.

The CNA matched the mounting external pressures and challenges of the legislation with even more pervasive and sophisticated administrative services. These services were ‘pervasive’ because their provision required over time an increasing degree of transparency and disclosure of the internal dynamics of the firms to the association. In order to benefit from the administrative support of the CNA, small businesses had to

⁵⁷ De Soto, H. 1989. *The Other Path. The Invisible Revolution in the Third World*. New York. Harper & Row, Publishers.

De Soto, H. 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York. Basic Books.

disclose and 'formalize' an increasing share of their economic activity to the technical staff of the association. At the same time, these administrative services became increasingly 'sophisticated', since they introduced unusually cutting-edge budgeting, management, and resource management techniques into the administration of small businesses. As a result, the administrative support of the CNA relieved small businesses from otherwise unbearable administrative costs and increased the degree of formalization of the firms.

More importantly, this 'burden-relieving' assistance of the association had the unexpected developmental outcome of promoting the continuous upgrade in the management of the firms. As a matter of fact, the process of formal bargaining with the labor union, the adoption of advanced accounting techniques, and the compliance with the fiscal and labor legislation progressively pushed small businesses towards rational management, strategic planning, and the optimization of the production process.

In other words, the administrative assistance of the association furthered the modernization of the firms; it changed over time the way of conceiving businesses of its members and supported the transition from a competitive strategy based on low costs, poor management, and low compliance with the law to a competitive strategy based on product quality, rational management, and high compliance with the law. The whole idea of 'burden-relieving' services with unexpectedly developmental outcomes will become clearer in the following pages and chapters. For now, it is useful to understand what are the main characteristics of the traditional administrative services of the CNA.

A Categorization of the 'Traditional' Services

The fiscal services, bookkeeping, payroll, and labor counseling are the traditional administrative services provided by the CNA. These services represent the first nucleus of real services of the CNA, since their provision started few months after the end of the Second World War. They are defined 'traditional' to differentiate them from the more recent and innumerable sectoral services for technological innovation, export, professional training, product quality standards, and so forth. These traditional administrative services constitute the core business of the association around which more production-targeted and 'strategic' services have developed over time. The growth of the administrative services has fostered the expansion of the organizational structure of the CNA over the decades; their evolution has marked important dividing points both for the history of the association and the upgrading of the member firms. Overall, they share the following common traits:

1) Burden-relieving.

Fiscal, payroll, bookkeeping, and labor counseling services are burden-relieving because they are aimed at relieving small businesses from the administrative burdens relative to the compliance with the law. They originated from the numerous requests for administrative help of self-

employed workers, often illiterate, who had very little experience in dealing with the formal regulations and trusted only the association⁵⁸.

These services rely on the assumption that small businesses lack of the internal skills to comply with the law and that their limited profitability prevent them from allocating sufficient internal resources to administrative matters. Given the inherent inability of small businesses to act in accordance with the formal regulations, external agents like the CNA have to provide the administrative support to meet the fiscal, labor, and accounting legislations.

If left alone, small businesses could not afford such compliance and would naturally slip deeper into the informal economy. For this reason, the administrative services of the CNA are ‘burden-relieving’ because their original mission is to provide administrative support to small businesses inherently incapable of conforming to the law by themselves. But, at the same time, these services are also ‘enabling’, since they enable small businesses to conform to the legislation, rather than simply exempting them from compliance on the pretext of small businesses minimal economic profitability.

2) Universalist.

The traditional services are also ‘universalist’ because they are indifferently offered to the whole range of member firms of the association.

The provision of fiscal or accounting services is not targeted to any specific

⁵⁸ For example, the payroll service in Bologna was officially organized in 1950, under the pressures of some employees of the CNA who had been completely overwhelmed by the continuous requests of the associates and could not provide the service spontaneously anymore.

typology of firms, nor has it any sectoral specificity. The compliance with the fiscal, accounting, and labor regulations represents the lowest common denominator for small businesses. All the firms are potentially interested to these services and there is very little variation among the regulations for each sector.

The universalist, all-including nature of these services entails large economies of scale. The large volumes relative to the provision of these services to the whole universe of the CNA affiliates bears the great organizational advantage of reducing the administrative costs both for the association and the firms. Moreover, the wide diffusion of these services, with very little differentiation from sector to sector, provides the main source of revenue to the association⁵⁹. In turn, the stable flow of revenues deriving from the traditional services grants the financial soundness necessary to expand the organization over time and undertake more complex and risky ‘targeted’ services.

3) An ‘Easy’ Task with Low Entry Barriers.

Another characteristic of the traditional services is their high degree of standardization. The large volumes generated by the universalist nature of these services favor the standardization of the administrative procedures for

⁵⁹ According to the budget of the CNA in Modena for 2001, the traditional services still account for 88.38% of the revenue of the association. However, this percentage might be overestimated because most of the ‘targeted’ services are now provided by external societies controlled by the CNA and their revenues do not appear in the budget of the association. (Source: CNA Modena).

the provision of the services. At the same time, the high degree of legal predefinition of the administrative procedures for each specific contract and regulation fosters the development of well-articulated and clear organizational routines.

The high level of standardization of the services and the possibility to develop well-defined internal routines makes the supply of the traditional services a relatively easy organizational task for the association. As a matter of fact, the traditional services demand a very low initial investment, mainly limited to the rent of the offices and the salaries of the employees.

The fact that human capital, endowed with a relatively simple-to-acquire technical expertise, constitutes the most important part of the initial investment reduces the organizational entry barriers and makes the supply of these services feasible also with a limited organizational structure. For example, during the early years, the political leaders of the CNA provided also the needed technical and professional expertise. In sum, the low entry barriers and the potential high standardization of the traditional services made them a relatively easy starting point for the association that could later on move to more organizationally complex tasks. The traditional services seem to provide the right sequencing, from 'easy' to more complex tasks, for the growth and consolidation of representative associations.

4) Limited Co-production of External Institutions.

The supply of the traditional services can be described as an 'easy' task also with respect to the low degree of involvement and limited influence of the external public institutions. This statement becomes clear if we compare the degree of interaction between the association and the external institutions needed for the provision of more targeted services, with the low involvement of the public institutions in the case of the payroll, fiscal and accounting services.

In fact, the provision of more targeted and strategic policies, such as the creation of industrial sites, centers for innovation and professional training, or credit agreements with local banks, requires an high degree of cooperation between the association and the other public institutions. For example, the creation of an industrial site requires the cooperation of the municipalities, the regional institutions, the provincial planning offices, the local, provincial and regional infrastructure departments, the public utility companies, and so forth.

On the contrary, in the case of the traditional services, the external institutions play a very minor role in the co-production of the services. Rather, they are the formal recipients of the final outcome (for example, the labor offices receive the social contributions or the fiscal offices simply cash the taxes).

The fact that the production of the traditional services is completely internalized reduces the complexity and uncertainty of the task. This characteristic provides a great operational advantage to representative

associations, especially when public institutions are highly unpredictable or not responsive. The reliance on the internal routines of the organization assures a high degree of stability and predictability in the provision of the services, even in an otherwise uncertain external environment.

Since it is just the lack of accountability of public institutions what usually prevents small businesses from trusting the formal institutions, member firms greatly appreciate the smooth provision of the traditional services and trust the internal robustness of the association. Once again, the low degree of external complexity and the reliance on internal stable routines suggests that representative associations should start with the 'easier' traditional services and then experiment more complex services based on the co-production with external institutions.

5) An Initially Less Invasive Approach.

A final characteristic of the traditional services is the fact that they require a low degree of active involvement of the firms in order to benefit from the services. Fiscal, payroll, and accounting services do not affect the daily operation of the firms, nor they influence the production or marketing activities. In other words, they do not demand to the entrepreneurs a consciously pursued transformation of their usual way of conducting business.

These services have a 'permissive' impact on the firms because they do not introduce performance standards in exchange for their provision. For example, the introduction of a new accounting system does not directly affect

the production process of the firm. Instead, the participation to more strategic services, such as production consortia, directly imposes product quality standards and strict production schedules on its members, thus directly transforming the production and marketing standards of the firms.

This 'permissive' and 'less-demanding' nature of the traditional services has the advantage of not immediately scaring away small firms, faced with the perspective of restructuring their way of doing business. Indeed, small businesses might be not economically sound enough, or simply not sufficiently prepared, to meet the performance standards usually associated with the more strategic services, and consequently scare away.

In brief, the traditional services have a less invasive approach to small businesses. This is especially true in the short run, when the traditional services do not demand any behavioral change to the firms and show their 'burden-relieving' nature. This initially non-invasive characteristic also suggests that these services might constitute the first step for representative associations to build trusting relations with small firms.

However, in the long run, the administrative upgrading of the firms, following the evolution of the traditional services, reshapes the economic behavior of the firms. It does so both by inhibiting backward managerial habits, such as irregular bookkeeping and informal employment practices, and by disclosing new market opportunities not accessible to less rationally managed organizations.

In sum, the traditional services of the CNA are burden-relieving, universalist, easy, non-invasive, with low entry barriers, and entail a limited co-production of external institutions. This categorization makes the traditional services not so appealing from a developmental point of view, when compared to the production-targeted, performance enabling, technologically innovative, or market-enhancing characteristics of the services usually associated with business development (production and marketing consortia, innovation centers, quality control services, and so forth).

Nonetheless, the traditional services have at least three developmental effects in the long run. First, once they have attracted small businesses into the realm of the formal economy, non-compliance with the law becomes increasingly more risky and less rewarding. Once firms find themselves regularly engaged in the process of formal bargaining with the labor unions, the use of irregular employment becomes more easily detectable by union activists, and so it is the defiance of both safety and labor standards.

Similarly, when small businesses opt for advanced accounting and auditing techniques, under the pressures of the association that provides the services, evading the taxes and reckless accounting become more difficult and easily noticeable. Recall that these administrative functions are no more under the direct control of the firms, since the association externally provides the services. In sum, it seems possible to say that the administrative services of the CNA help keep small businesses on the developmental path, by increasing the risks and the barriers to the so-called “low road” to development. We might define this phenomenon as ‘developmental inertia’.

Second, the traditional services enable small firms to bridge the well-known managerial and administrative gap with large and more structured firms. By providing at

the aggregate level high profile technical and professional expertise, the services of the CNA enable small businesses to compete on the same managerial and administrative grounds of large businesses. For example, budgeting control and strategic planning are only two of the latest administrative services of the CNA that have contributed to reduce over time the managerial skills gap between member firms and their larger counterparts. Advanced administrative techniques and the external provision of high quality professional skills have enabled small businesses to compete with the same tools of big firms and occupy market niches that would have remained otherwise not discovered.

Third, the traditional services have provided both the organizational basis and the technical substratum for the development of more sophisticate and market-enhancing services. This is the case of the budgeting control, supply chain analysis, market matching, or the buyer-supplier information sharing services. All these highly developmental services derive from the upgrade of the more traditional accounting services, and originated from the adoption, during the 1970s, of the information technology by the CNA.

In sum, the traditional services had the developmental effect of providing increasing returns to scale both to the association and to the firms for the introduction of the more advanced services. They initiated a cumulative process of generation of both professional skills and technical expertise within the association, with increasingly positive externalities for member firms.

Chapter IV

Accounting and Fiscal Services

Since the end of the Second World War, the CNA has played a crucial role in enabling small businesses to comply with the fiscal and accounting regulations. The approach of the association to the provision of fiscal and accounting services has changed over time, according to the evolution of the legislation on small businesses. As a matter of fact, the history of fiscal intermediation of the CNA is characterized by discontinuity, rather than representing a smooth and incremental evolution of the policies and services. Indeed, the fiscal reform of 1973 constitutes an important divide both for the association and for member firms. It has reshaped the role of the CNA, both as fiscal intermediary and provider of accounting services, and the managerial and administrative behavior of small businesses.

The fiscal reform of 1973 has shifted the role of the association from fiscal negotiator with the local tax institutions, to provider of professional counseling under a more formalized and rational fiscal regime. While in the first case, the ability to represent and mobilize the majority of small businesses constitutes the main source of the bargaining power of the association *vis-à-vis* the local tax offices, in the case of professional counseling, the competitive strength of the association relies on highly trained technical staff and well-devised organizational routines. This shift in the relative importance of professional expertise *versus* bargaining capabilities, as the most valuable organizational resource for the provision of fiscal assistance to small businesses, responds to the transformation of both the legislative and institutional environments.

Overall, the fiscal reform of 1973 divides the history of fiscal assistance of the CNA into two separate historical moments, encompassing different legal and institutional frameworks and, more importantly, distinct strategic responses to the need for fiscal assistance of small firms. The phase *before* the fiscal reform, from 1945 to 1973, was characterized by a low level of fiscal pressure, a high discretionary power of the local tax offices, and the periodical direct negotiation of the CNA with the provincial fiscal institutions of both tax rates and *ad hoc* tax agreements. Whereas, the phase *after* the fiscal reform, from 1973 to 2001, has entailed an increasing fiscal pressure, more stringent accounting requirements also for small businesses, and the introduction of highly formalized relations between the fiscal authorities and taxpayers, with very limited local bargaining.

During each of these stages, the fiscal assistance of the CNA has enabled an increasing number of small businesses to comply with the formal accounting and fiscal regulations. What has changed over time is the role of the association, from collective intermediary of small businesses for fiscal matters, to aggregate provider of technical expertise. Therefore, it seems particularly useful to understand how the CNA contributed to a higher degree of compliance of both fiscal and accounting regulations under different fiscal regimes. This comparative exercise promises also to bear interesting insights about the sequencing of the activities of the association: how the transition from an intermediary to a more technocratic role has influenced the process of upgrading of the firms. The remainder of this chapter will focus on the strategy of fiscal assistance of the CNA before and after the fiscal reform of 1973.

Fiscal Intermediation Before 1973

The so-called Vanoni reform (Law 25, January 11th 1951) regulated the fiscal treatment of artisan firms until 1973. Under this fiscal regime, both indirect and direct taxation followed prearranged schemes of taxable income, according to the sector, the activity and the number of workers of the firm, rather than relying on the actual income of the firm. In other words, the provincial offices of the Ministry of the Finances issued every two years the presumed taxable incomes for each category of firm, according to standardized parameters, such as the number of employees and the specific productive activity of the firm. Artisan firms had to declare at least the same level of taxable income assumed by the law, otherwise they would have incurred into inductive and discretionary investigations of the local tax offices.

Moreover, this fiscal system entailed ambiguous relations between the firms and the fiscal institutions. On the one hand, it exempted artisan firms from formal bookkeeping and simply required them to declare a level of profitability in line with the legally presumed taxable incomes. On the other hand, it subjected artisan firms to frequent and unpredictable discretionary investigations, thus increasing the degree of uncertainty and reciprocal mistrust between small businesses and provincial tax institutions. It is the high degree of indetermination and uncertainty of this system that enabled the CNA to mediate between the firms and the formal institutions.

Another feature of this fiscal system was the relative autonomy and decentralization of the provincial fiscal offices, which could autonomously set the tables

of presumed taxable income and settle the frequent controversies over the discretionary tax assessments. These two features, the relative autonomy and the discretionary power of the local tax offices, set the institutional framework for the fiscal intermediation of the CNA. In fact, it is within this context of decentralized decision-making of the fiscal institutions that the CNA established itself as the legitimate mediator of small businesses for fiscal matters. It could do so, first because of its ability to politically represent and mobilize the majority of the artisan firms in Bologna and Modena; and second, because the relative autonomy and discretionary decision-making of the provincial tax offices allowed for a fair degree of bargaining between the artisan associations and the fiscal institutions at the local level.

Overall, the Vanoni reform represented a first attempt to rationalize the Italian fiscal system. From 1948 to 1955, it substantially raised the tax revenues, even though the total fiscal pressure increased only from 1.05% to 1.42% over the same period. Under this system, indirect taxation generated double the revenues of direct taxation and was the main contributor to the overall fiscal yield of the state. The IGE (General Tax on Income) was the main indirect tax and had a particularly distortionary impact on small businesses.

On the one hand, the IGE taxed every transaction along the supply chain, thus progressively increasing the fiscal burden of both phase firms and final producers towards the end of the supply chain⁶⁰. This characteristic of the IGE favored large firms over the small ones because of the large degree of vertical integration of the former with respect to the latter. As a matter of fact, highly vertically integrated firms incurred in less market transactions along their supply chain; whereas, small businesses, and their

⁶⁰ The fiscal reform of 1973 will replace the IGE with the Value Added Tax. This tax eliminated the distortionary effect of the IGE by allowing the break up of the tax among all the parties of the supply chain.

producer consortia, entailed a higher number of market transactions among independent economic units and were consequently subject to a greater fiscal pressure.

On the other hand, artisan firms had also to pay a lump sum for the IGE every year, according to the presumed level of taxable income set by the provincial tax offices. This mechanism involved the multiple taxation of the same income, both for every economic transaction and as a fixed percentage of the overall taxable income administratively determined by the fiscal institutions. Under this multiple and somewhat arbitrary mechanism of taxation, the number of fiscal controversies was extremely high and the CNA became the most reliable fiscal intermediary of small businesses.

Despite the high level of uncertainty associated to the discretionary power of the provincial tax authorities, the Vanoni reform entailed also a more favorable fiscal treatment for small businesses. For example, it adopted a similar tax treatment both for artisan firms and for labor, thus lowering the tax rates for small businesses with respect to the other typologies of firms. This strategy of taxation was not casual, but echoed at the national level the sustained political pressures of the CNA, whose main political credo advocated for equal rights and legal recognition of self-employed artisans and workers.

In general, the Vanoni fiscal regime entailed a relatively low fiscal pressure on small businesses. According to the fiscal system up to 1973, this category of taxpayer had a buffering role in adjusting the actual tax yield to the forecasted fiscal needs of the state. The provincial tax offices had discretionary power in setting the tables of presumed taxable income every two years, because in this way they could promptly increase (or decrease) the fiscal pressure on small businesses and meet the new tax revenue targets of the state. In other words, the discretionary setting by public institutions of the taxable

income for each typology of firm, and the reliance on the presumed, rather than the actual, revenues of the firms, endowed the fiscal system with a certain degree of flexibility. Indeed, it seems safe to say that the provincial tax offices were not really interested in the lawful payment of the due amount by the individual firm. Rather, they simply sought to generate an aggregate level of revenues sufficient to meet the fiscal requirements of the province.

This discretionary and at the same time ‘soft’ approach to taxation tolerated a certain degree of fiscal evasion in the sense that it simply set the minimum levels of presumed taxable income necessary to generate the expected amounts of tax revenues. Artisan firms had only to declare a level of profitability in line with the presumed taxable income, independently of their actual level of income. Once they had reached the forecasted level of tax revenues, the provincial tax offices had no real stimulus in taxing the firms beyond the administratively-set presumed earnings.

According to this system, there was a physiological level of fiscal evasion for that portion of income exceeding the minimum taxable income set by the provincial tax offices. In fact, it was in the interest of both the firms and the fiscal institutions to simply pay in accordance with the administratively-set tables of presumed taxable income, and do not calibrate taxation on the actual level of income. On the one hand, the most dynamic firms could hide from taxation their higher profits; on the other hand the provincial tax offices could easily reach the expected level of aggregate tax revenues without excessive investigative efforts.

Having said that, it becomes clear that the really crucial point for the functioning of this fiscal system was the issuing and the periodical renegotiation of the tables of

presumed taxable income. As a matter of fact, the hottest controversy between the fiscal institutions and small businesses was about the setting and periodical revision of the presumed levels of income for each typology of firm. Unfortunately, small businesses individually lacked of the necessary bargaining power to negotiate *vis-à-vis* with the provincial tax offices and settle the numerous pending fiscal assessments. What they needed was a fiscal intermediary that could collectively represent small businesses and negotiate face to face with the local tax offices. With respect to this problem, it is no accident that the CNA in Bologna had already started its fiscal intermediation services in 1946, represented around 4,718 firms in 1956, more than 6,085 in 1959, and continued to serve an increasing number of small businesses during the next two decades.

The CNA adopted a two-pronged approach to the issues of fiscal intermediation. On the one hand, it utilized its territorially pervasive organizational structure to offer its fiscal services to as many firms as possible. The wide diffusion of the service was aimed at reaching the ‘critical mass’ of firms needed to consolidate the bargaining power of the association *vis-à-vis* the provincial tax offices, and guarantee an effective fiscal intermediation. During the 1950s and half of the 1960s, when the organization of the CNA was not yet territorially well-articulated, many CNA’s officials toured the provinces of Bologna and Modena to provide fiscal assistance on the spot and collect the largest number of authorizations to represent small businesses before the provincial tax offices⁶¹.

On the other hand, the association established a permanent dialogue with the provincial tax offices, first to renegotiate periodically the tables of presumed taxable

⁶¹ Walter Rondelli, former director of the Payroll and Fiscal Offices of the CNA in Bologna, recalls that almost every Sunday morning during the 1950s and 1960s he used to go to a different town and provide fiscal assistance to the artisans. Sometimes the municipalities provided a temporary office, more often he and his colleagues assisted the artisans in a workshop.

income, and second to settle the frequent fiscal controversies relative to the discretionary tax investigations. Even though the confrontation was sometime harsh, with the association using its mobilizing power to organize strikes, intense protests, and social unrest, the negotiations between the CNA and the provincial tax offices reached mutually satisfactory results most of the times. Actually, both parties had devised an informal bargaining mechanism that favored the gradual convergence of the different estimates of the CNA and of the provincial tax offices with respect to the most appropriate figures of presumed taxable income.

This informal procedure of bargaining was also adopted to settle the frequent controversies over the tax assessments and consisted in several rounds of negotiations. First, the provincial tax offices issued the tables of presumed taxable income or, depending on the cases, the results of their tax assessments. Second, the CNA released its estimates for the official tables of presumed taxable income. In the case of fiscal controversies, the association analyzed the situation of the individual firm and proposed to the firm to declare a more 'appropriate' level of taxable income in response to the requests of the fiscal authorities. Finally, representatives of both the association and of the provincial tax offices discussed together to compromise over the different, but gradually converging, estimates of the most appropriate level of taxation⁶².

This mechanism of fiscal intermediation enabled the CNA to implement a 'soft' strategy of formalization. As I have discussed before, under the Vanoni fiscal regime small businesses had to pay taxes in accordance to the presumed level of income and not

⁶² With respect to the settlement of the fiscal controversies, usually the CNA's officials analyzed the requests of the provincial tax offices, made their own estimates of the correct level of taxation according to the real profitability of the firms, and notified their proposals to the fiscal authorities. After few days, the fiscal institutions came up with a counterproposal and started a final round of negotiations and meetings.

to the actual profits. This characteristic form of taxation allowed small firms to comply with the law and at the same time to exempt from taxation the share of their actual revenues exceeding the level of presumed taxable income. This option provided a soft entry into the realm of the formal economy, because it represented an intermediate step between complete informality and full taxation on the basis of the actual income. Accordingly, the CNA could pressure its members to declare at least a level of income in line with the official estimates⁶³ and at the same time negotiate more 'affordable' tables of presumed taxable income with the fiscal authorities.

In sum, the CNA was able to pressure many firms towards fiscal regularization, because the system of taxation based on the presumed, rather than the actual income of the firm allowed for a certain degree of freedom in determining the actual level of taxation of the firm. Small businesses could respect the fiscal legislation and at the same time exempt from taxation a reasonable amount of their revenues.

Moreover, the ability of the association to periodically renegotiate the levels of fiscal pressure *vis-à-vis* the provincial tax institutions provided an additional incentive to fiscal compliance for small businesses. In fact, the effective fiscal intermediation of the CNA preserved member firms from the frequent mistakes and arbitrary tax assessments of the fiscal authorities. Once they had paid taxes in accordance to the tables of presumed taxable income, small businesses could totally rely on the ability of the CNA to adjust the fiscal pressure to an acceptable level and to reduce the uncertainty relative to the persisting indetermination of the fiscal system. As a matter of fact, it is no accident that

⁶³ Many CNA employees of the fiscal office remember that they had often to press the artisans to declare profits at least in line with the official estimates. Otherwise, they usually argued, the CNA would lose credibility in negotiating the fiscal controversies of its associates with the provincial tax offices. The association would defend only reasonable fiscal positions and not too blatant cases of tax evasion.

the fiscal reform of 1973 will try to reduce the indetermination of the system and the discretionary power of the fiscal authorities.

The Fiscal Reform of 1973 and the Accounting Services

The fiscal reform of 1973 represented a crucial step for the administrative upgrading of the artisan firms, since it obliged also small businesses to keep a formal accounting system. At the same time, it also changed the role of the CNA with respect to fiscal intermediation because it required artisan firms to pay taxes according to their actual income, and no more on the basis of the administratively-set tables of presumed taxable income. This different mechanism of taxation greatly limited the discretionary power of the local tax offices in modifying the local levels of taxation, and consequently reduced the importance of the periodical renegotiations between the CNA and the fiscal authorities over the presumed profitability of small businesses. Under the new fiscal regime, the CNA had mainly to provide affordable accounting services to small businesses, rather than representing them before the fiscal authorities. The main task of the association shifted from fiscal intermediation to technical assistance with respect to formal accounting.

On the whole, the fiscal reform of 1973 constituted a further rationalization of the taxing system; it substituted the controversial IGE, which taxed several times the same income, with the more rational Value Added Tax. It reorganized the system of direct taxation by limiting the number of direct taxes to the IRPEF and the ILOR, which taxed

the actual income of the firms and demanded formal accounting also from small businesses. All these transformations increased the fiscal pressure from 14.7% of GDP in 1973 to 18.3% in 1980 and to 25.2% in 1990, mainly as a result of the improved performance of the direct taxation. More importantly, this reform faced small businesses with the dilemma of pursuing the further upgrading of their administrative and managerial activities with the introduction of formal accounting procedures, or choosing the alternative path of falling back to a higher degree of informality and ignoring the challenges of the new regulation. Of course, also in this case the CNA played a crucial role in helping small businesses to further pursue the path of administrative upgrading.

First, all over 1972, 1973 and 1974 the association actively campaigned in favor of the new fiscal system. It constantly pressured member firms to adopt formal accounting procedures and guaranteed the direct management and supervision of all the administrative tasks. The CNA would relieve small businesses from all the administrative requirements of the new regulation, including regular bookkeeping, budgeting, management of the Value Added Tax, IRPEF and ILOR declarations, and the classical fiscal intermediation in the case of tax assessments.

Second, in order to meet the challenges of fiscal and accounting assistance under the new fiscal regime, the CNA went through a process of territorial decentralization, organizational growth, technological upgrading, and procedural restructuring. In fact, services such as regular bookkeeping and the management of the monthly assessments of the Value Added Tax required a more frequent and intense interaction between the firms and the association. The association needed to be geographically closer to the artisans, and therefore it expanded its territorial structure and fostered the decentralization of the

services. For example, the CNA of Modena had only 10 branch offices in 1961, jumped from 27 to 48 offices between 1971 and 1974, and reached a peak of 73 decentralized offices in 1980. As a matter of fact, the fiscal reform of the 1970s entailed a 170% increase of the territorial structures of the CNA in Modena within less than ten years.

The process of territorial decentralization involved also the sustained growth of the organization which started from only 37 employees in 1961, more than doubled from 117 to 277 units between 1971 and 1977, and reached 572 employees in 1986 for the province of Modena. This striking organizational growth was entirely self-sustained and financed by the continuously rising revenues generated by the 'traditional' services.

In some ways, it seems safe to say that the fiscal reform of the 1973 and the organizational growth of the CNA are strictly interrelated and reciprocally self-reinforcing. On the one hand, the more stringent requirements for formal accounting and VAT management introduced by the fiscal reform created the institutional prerequisites for the expansion of the organizational structure of the CNA. As a matter of fact, the new legislation increased the degree of complexity in the administration of small businesses, and made external administrative and fiscal assistance much more necessary.

On the other hand, the association perceived the fiscal reform as an opportunity for the introduction of additional administrative services, and foresaw the huge potential for growth relative to these services. Accordingly, the CNA had strong institutional incentives to support the fiscal reform and pressure member firms to comply with the new regulations.

It seems possible to say that the reciprocal interdependence between the fiscal reform and the expansionary tendency of the association fostered a mechanism of circular

causation characterized by the following sequence: stricter fiscal requirements, increasing need for the administrative assistance of small businesses, greater opportunities for the growth of the CNA, provision of new administrative services and constant pressuring on member firms to adjust to the new fiscal system, further growth of the association and higher compliance with the law. Beside the consolidation of the association and the further formalization of the firms, this self-reinforcing interaction between the new regulations and the CNA had also the developmental effect of promoting the administrative upgrading and the further rationalization of the management of small businesses.

Third, as I have mentioned before, the provision of fiscal and accounting services on a larger scale entailed also a process of technological upgrading and procedural restructuring inside the association. In fact, in order to provide the administrative services on a large scale and at an 'affordable' price, the CNA went through a process of standardization of the organizational procedures for the production of the services and pursued the generation of administrative economies of scale with the pioneer adoption of the information technology.

In 1973, few months before the final approval of the fiscal reform, both the associations of Bologna and Modena independently constituted two separate Centers for the Management of the Technical and Administrative Services (CE.S.T.A.M. in Modena and CE.D.A.B in Bologna). These centers took the legal form of a cooperative and pursued the centralized processing of all the administrative services (fiscal, accounting, and payroll services) provided by all the branch offices of the province.

In order to handle and process huge flows of information relative to the accounting and labor contracts of thousands of small businesses, the CNA introduced for the first time the use of the electronic calculator. Given the high initial costs necessary to invest in this new technology (recall that the information technology was in its infancy at that time), the association first started a partnership with the IBM for the management and technical assistance of the calculators, and only in a second phase, when the information technology had become more accessible at the beginning of the 1980s, it completely internalized the information system. In order to assure a smooth flow of information between the CE.S.T.A.M and the branch offices, the association standardized most of the internal administrative procedures; at the same time it codified each typology of labor contract and of accounting operation. This process of standardization and codification allowed the CE.S.T.A.M to reach economies of scale in the elaboration of huge flows information, and at the same supported the customized management of the labor contracts, fiscal schedules, and accounting systems of each individual firm.

The procedural reorganization of the CNA during the 1970s, the adoption of the information technology, and the centralized management by the CE.S.T.A.M of all the administrative services had a tremendous impact on the economic behavior of small businesses. First, the administrative support of the CNA made the compliance with the new fiscal system a viable option also for small businesses. This is an important achievement *per se*, since the greater complexity and the stricter requirements of the new fiscal system would have probably scared small businesses away and increased their degree of informality. On the contrary, the compliance with the new regulation became

the most practiced option among member firms, and the widespread acceptance of the formal accounting procedures increased the degree of formalization of small businesses.

Second, the centralized management by the CE.S.T.A.M of the administrative services demanded a regular and disciplined flow of information from the branch offices, and, more interestingly, from the firms. This need for regularity and systematic collection of economic and administrative data imposed a sort of control mechanism on the firms. The branch offices of the CNA constantly assisted and pressured small businesses to respect the numerous periodical deadlines of the fiscal and labor legislations. Small businesses had also to provide timely information about their transaction in order to allow regular bookkeeping. This continuous request for information disciplined the administrative behavior of the firms and somehow trained the entrepreneurs for a more regulated and rational approach to management of their businesses.

Third, the introduction of the information technology for the provision of the administrative services made accessible also to small businesses an unprecedented amount of information about their financial, fiscal, and economic performances. As a matter of fact, small businesses usually relied on a blurred picture of their economic or financial situation because they did not have the same degree of administrative sophistication of large firms. This lack of managerial awareness can alternatively lead to risky and unhealthy economic strategies, or to the systematic underestimation of the potential profitability of the firm.

Fortunately, the ready availability of periodical analyses of the financial, fiscal, and economic situation of the firm provided by the CNA, raised the level of managerial awareness of small businesses and enabled them to improve their overall economic

performance. In other words, the information feedback relative to the informatization of the administrative services of the CNA favored the transition from a more traditional and intuitive way of conducting business, to a more scientific and farsighted management of small businesses.

Finally, a legitimate objection to the foregoing analysis might dismiss the entire argument by considering the activity of the CNA limited to few firms and not really affecting the universe of small businesses. With respect to this objection, it is statistically sound to reply that the influence of the CNA during the decade after the introduction of the fiscal reform was far from marginal; on the contrary it affected a substantial share of the universe of small businesses in the provinces of Bologna and Modena.

For example, in 1975, less than two years after the fiscal reform, the CNA of Modena provided accounting services to 6,159 firms, which represented 45.57% of the CNA's associates and, more importantly, 27.74% of all the artisan firms of the province of Modena. In 1982 the number of firms receiving accounting and fiscal assistance rose to 11,984, around 68.26% of the CNA's associates and more than 44.22% of the whole universe of small businesses. Finally, in 1985 the number of firms stabilized around 10,079, which represented 64.34% of member firms and 39.52% of all the artisan firms. This reduction in the number of firms receiving fiscal and accounting assistance is mainly attributable to the decision of the association to completely informatize the accounting services; some firms were not ready for this transition and dismissed the service⁶⁴.

⁶⁴ Up to 1985, the branch offices of the CNA continued to provide 'low-tech' handwritten accounting services for those firms unwilling or unable to shift to the computerized provision of the services. In 1984 the association pursued the complete informatization of the services at the cost of losing the less economically dynamic firms.

According to these data, it seems safe to say that the CNA supported a substantial share of the overall number of small businesses during the transition to the new fiscal system. At the same time, this transition, along with the adoption of formal accounting, stimulated the further formalization of small businesses on a large scale (around 40% on average of all the artisan firms in the province) and during a reasonable period of time.

Lastly, the process of technological innovation and of administrative upgrading fostered by the CNA provided innovative managerial tools to a large number of artisan firms, and generated a momentous 'cultural' change in the administration of small businesses. The information feedback generated by the new administrative services enabled small businesses to consciously pursue better competitive strategies, and to optimize the overall management of the firm. This in turn consolidated the progression of small businesses along the so-called 'high-road' to economic development.

In sum, the organizational response of the CNA to the challenges of the new fiscal system entailed a more rational administration of the traditional fiscal, accounting, and payroll services and, more importantly, the creation of new organizational structures such as the Center for the Management of the Technical and Administrative Services. This new structure, along with the introduction of the information technology, provided both the organizational basis and the technological infrastructure for the future generation of more advanced and market-enhancing administrative services such as budgeting control, supply chain analysis, or buyer-supplier matching.

All these more advanced administrative services became crucial instruments for the formulation of the competitive strategy of small businesses during the 1980s. They constitute a natural development of the reorganization of the more traditional services

during the 1970s and enabled the artisan firms of Bologna and Modena to rationalize their management, optimize the market relations between buyers and suppliers, and eventually to increase their competitive advantage over other competitors. For example, the service of supply chain analysis enabled both metalmechanic and garment firms in Modena to constantly monitor the contribution of each order to the overall profitability of the firm. In this way, the small suppliers could optimize their portfolios of clients and reduce their degree of dependence on few large buyers.

In addition, the budgeting control services allowed small businesses to scientifically analyze both the costs and the contribution of each internal activity along the value chain of the firm. In this way, artisan firms could promptly detect any problem or internal weakness of the production process, and consequently pursue the reorganization of production.

Finally, the conspicuous flows of information elaborated by the CE.S.T.A.M provided to member firms constantly updated market analysis and market trends. More importantly, the tremendous amount of information about member firms enabled the CNA to institute a buyer – supplier matching service. In other words, this ‘market enhancing’ service enabled member firms to easily find the supplier of a specific type of product or phase production, or the potential buyer, among member firms. This kind of service increased the degree of interaction and cooperation among the artisan firms.

In conclusion, it is safe to say that behind the international competitiveness and the high degree of cooperation of the Emilian small businesses there are also the ‘market enhancing’ and ‘information based’ services of the CNA. It is also useful to remember that these services came out of the traditional ‘burden relieving’ services of the CNA.

Chapter V

Autonomous Bargaining, Labor Counseling, and Payroll Services

Another traditional area of intervention of the CNA is the provision of payroll services, and more in general labor counseling, to artisan firms. The direct involvement of a small-producers association in the field of industrial relations is particularly surprising if we consider that small businesses have a bad reputation for exploiting labor, preventing the unionization of workers, completely ignoring the labor legislation, and recurring mainly to irregular work. In general, small businesses associations do not get directly involved in the administration of the relations between member firms and their employees; most of the times they shy away from labor standards issues and do not recognize the labor unions as legitimate representative counterparts. What is interesting in this case is that the CNA soon established long-term relations with the labor unions, recognized them as hostile but legitimate counterparts, and more importantly enabled the artisan firms to comply with the labor legislation and reduce to some extent the recourse to irregular work.

This unconventional approach of the CNA to labor issues has to deal with the leftist political roots of the association, and more interestingly, with the initial close organizational ties with the CGIL, the labor union of the Communist Party. The common historical and political origins of the Emilian labor movement and of the CNA explain why the association always considered the maintenance of good industrial relations a central point of its political agenda. In addition, the search for political independence, and the strategy of progressive autonomy from both the CGIL and the PCI, explain why the

association put at the forefront of its political agenda the recognition of the autonomous bargaining power of the CNA with respect to labor issues.

Paradoxically, the pursue of an autonomous bargaining platform for the artisan firms, as opposed to the traditional bargaining system between the Confindustria, representing only the large industrialists, and the labor unions, forced small businesses to respect labor standards and introduce regular labor contracts, because it institutionalized a mechanism of constant bargaining between the CNA and the labor unions.

As a matter of fact, the association had at least two strong institutional incentives to pressure member firms for the application of the labor contracts it negotiated with the labor unions. First, the non-application of specific labor contracts for the artisan sector, so strongly supported by the CNA, would have undermined the prestige of the association *vis-à-vis* the Confindustria and the labor unions and questioned its real ability to represent the artisan sector. Second, as the direct stipulator of the labor contracts for each sector, the CNA would be recognized by the artisan firms as the most qualified provider of labor counseling and, more in general, of the labor-related services. The widespread recognition of the association as the best-suited provider of labor services would have corroborated the competitive position of the CNA with respect to similar associations, and financed the growth of the organization with the services.

Before analyzing the history of the political struggle of the association with both the Confindustria and the CGIL to reach an autonomous bargaining power for labor issues, it seems interesting a brief description of the payroll and labor counseling services of the CNA. Their existence and wide diffusion among the member firms with employees

constitute a reasonable proxy variable of the degree of compliance with the labor legislation and of the diffusion of regular employment practices.

Payroll and Labor Counseling

The provision of the payroll service entails the monthly preparation of the pay packets for the employees and the regular payment of the contributions for the health insurance, social security service, and work insurance of the workers. The fact that artisan firms utilize this service is indicative of the existence of regular employment practices, or at least that a certain degree of informality does not coincide with the exploitation of the labor force. Rather, the respect of the labor standards and a certain degree of informality usually occurs when the demand is booming, and both employers and employees agree to share extra profits and keep off the books overtimes.

The fact that the CNA could externally provide the payroll services confirms the preexistence of sound industrial relations between the association and the labor unions. In fact, the preparation of the pay packets relates to some of the most controversial labor issues such as the exact computation of regular working time and of overtimes, the application of the appropriate labor contract for each mansion and category, or the correct allocation of the social security contributions. As a matter of fact, the centralized and routinized management⁶⁵ of this service by the CNA is possible only when labor contracts are well specified and regular employment practices are constantly enforced. In

⁶⁵ To have an idea of the importance of the payroll service with respect to the overall organizational structure of the CNA, we can simply consider that for 2001 the Payroll Office in Bologna employed full time 120 units, while the Payroll Office in Modena employed 126 units for the provision of this service.

turn, this is possible when there is an institutionalized bargaining mechanism between the firms and the labor unions.

With respect to the burden-relieving nature of the traditional services, it seems possible to say also in this case that the provision of the payroll service is aimed at relieving the artisan firms from the administrative burden relative to the compliance with the law. The association enabled small businesses to respect both the labor legislation and the sectoral contracts because it managed the administrative relations member firms and all the relevant labor institutions such as the INPS (National Institute for Social Security), the INAIL (National Institute for Work Insurance), and the local Departments of Labor.

In a similar manner to the fiscal and accounting services, the association represented member firms in the case of controversies and observed, on behalf of the firms, all the administrative requirements relative to each institution. In brief, artisan firms respected the labor legislation also because the CNA made compliance with the law both manageable and economically affordable for small businesses. Artisan firms greatly appreciated this support and their degree of compliance with the law can be gauged by the following quick statistical analysis.

In 1955, the CNA of Bologna instituted the payroll office and assisted around 250 firms with a monthly average of 742 pay packets for their employees. In 1963, the association adopted the mechanized system Olivetti Audit and provided more than 13,000 pay packets to 3,400 firms every month. In 1969, the CNA experimented a new electronic system in partnership with the IBM and prepared on average 20,600 pay packets for 5,400 firms every month. This positive trend has continued over time after the constitution of the CE.D.A.B (Center for the Management of the Technical and

Administrative Services in Bologna) in 1973 and the complete informatization of the services after the creation in 1981 of an integrated information system (the SIAER)⁶⁶ for the whole Emilia Romagna.

Similarly, the CNA of Modena prepared a monthly average of 11,098 pay packets for 3,300 artisan firms in 1975, 14,860 pay packets for 3,808 firms in 1982, and more than 15,578 pay packets for 3,718 firms in 1986. Particularly indicative of the diffusion of the service among the artisan firms with employees is the fact that the number of firms utilizing the payroll services represents on average 26.24% of member firms and, more importantly, a striking 94.7% of the CNA members with employees.

This percentage supports the hypothesis that the CNA played a crucial role in pressuring and, at the same time, enabling small businesses to respect the contract labors and comply with the labor legislation. As a matter of fact, it shows that the overwhelming majority of the firms associated with the CNA adopted regular employment practices. In addition, a quick analysis of the budget for 2001 of the CNA in Modena confirms also the hypothesis that the payroll services had, and still have, a crucial role in financing the organizational growth of the association. In fact, in 2001 the CNA of Modena prepared a total of 324,054 pay packets, which generated revenues for 18.700 billion liras and accounted for 35.87% of the revenues from the administrative services and 32.08% of the overall income of the association⁶⁷.

⁶⁶ The SIAER resulted from the merger of the nine independent centers for the management of the technical and administrative services of the nine provincial CNA associations of the Emilia Romagna. It took the form of a cooperative joining the CE.S.T.A.R in Reggio Emilia, the CE.L.D.A.R in Rimini, the CE.S.T.A.PI in Piacenza, the CE.D.E.S-CRONOS in Ferrara, the CE.S.T.A.P in Parma, the SE.D.A.R in Ravenna, the CE.S.T.A.M in Modena, the CE.D.A.B in Bologna, and the SO.C.E.D in Forlì.

⁶⁷ These percentages are referred only to the core activities of the association because the budget of the CNA does not include the revenues of the societies controlled by the association. (Source: CNA Modena).

The payroll service is part of the broader strategy of the association to provide labor counseling to small businesses. In fact, administrative support alone is not sufficient to enable small businesses to enter the realm of formal industrial relations with the workforce. What artisan firms also need is the constant assistance and counseling all along the different activities that characterize the enforcement of regular employment practices: from the stipulation of the collective contracts for each sector, to the choice of the best-fit labor contract that insures higher labor flexibility to the individual firm, to the interpretation of the labor regulations relative to the application of the sectoral contracts, to the technical assistance needed to meet the working condition and safety standards required by different public institutions, and finally to the representation and intermediation in the frequent event of labor disputes.

Failure to provide this kind of assistance and labor counseling usually increases the likelihood that small businesses will resort to informal work and irregular employment practices. For this reason the CNA of Bologna finally institutionalized its traditional labor counseling activity in 1974, with the formal constitution of the Labor Disputes Office and the Labor Contracts Office. This organizational choice responded to the need to provide a unique and consistent interpretation of the labor contracts. In fact, before the institution of a centralized Labor Contracts Office, the CNA officials in charge of the numerous sectoral federations (metalmecanic, garment, textile, barbers, etc.) of the association provided different and often conflicting interpretations of the sectoral labor contracts.

What is really interesting about labor counseling is the fact that the provision of these services testifies the existence of solid industrial relations and regular employment

practices. As a matter of fact, the diffusion of counseling services for the interpretation and adoption of the most advantageous labor contracts, or the call for representation and intermediation over the labor disputes, indicate that small businesses followed the association in adopting an institutionalized and formal framework for the resolution of labor related issues, rather than recurring to more backward and informal strategies of conflict resolution with their employees.

However, the recourse to an institutionalized system of industrial relations does not imply that the relations between small firms and labor were idyllic. Instead, the level of conflict became rather high since the second half of the 1960s and all over the 1970s, because of the intense degree of unionization of the workers. Nonetheless, it seems safe to say that even in the case of harsh confrontation, with repeated strikes and public demonstrations, both the CNA and the labor unions adopted a pragmatic approach to the resolution of the conflicts.

For example, at the beginning of the 1970s there was a tough controversy about the introduction of a stable union inspector in each artisan firm. On the one hand, the labor union wanted to have access to the workshops to check the lawful application of the labor standards; on the other hand, the artisans perceived this request as an intrusion and a constant interference with their production process. In the end, both the CNA and the labor unions pragmatically resolved this controversy by adopting a territorially based bargaining platform: artisan firms would grant access anytime to labor union's representatives, but there would be only one union inspector for every ten firms.

Both the CNA and the labor unions could adopt a pragmatic approach to the resolution of the labor controversies because they had a common leftist political

background. As a matter of fact, there was no substantial ideological clash between the positions of the association and of the labor unions; they were both supportive of a social-democratic interpretation of capitalism and had a shared history of participation to the Resistance movement and to the reconstruction after World War II. In sum, when negotiating new labor contracts or settling labor controversies, both the association and the labor union were free of any ideological contraposition. They did not need to reaffirm the supremacy of Capitalism over Communism or vice versa at every bargaining table, and this condition allowed them to simply focus on the controversies and resort to pragmatic solutions. Having said that, there is a fundamental question that we still need to answer: Why did a small-producers association like the CNA give such prominence to labor issues and to the institution of solid industrial relations?

Political Recognition: the Struggle of the CNA for the Autonomous Bargaining Power

Every collective institution, every kind of association, representative body, political party, labor union, corporation, interest group, industrial lobby, grassroots movement, and more or less organized committee seeks both social and political recognition for itself and its members. This natural tendency of representative bodies also applies to the CNA and constitutes one of the underlying reasons why the association gave central prominence to labor issues and to the establishment of a solid system of industrial relations.

In fact, since 1959 the association had campaigned for the establishment of an autonomous bargaining table for the artisan sector with respect to labor issues. The ability to stipulate autonomous labor contracts for the artisan sector, and negotiate face to face with the labor unions on an independent bargaining platform, would have granted both political recognition and social prestige to the association. First, the institutionalization of independent industrial relations between the CNA and the labor unions would have disrupted the ‘monopoly of representation’ exerted by the Confindustria, the business association of the large industrialists, over large, medium, and small firms as well. The Confindustria was the representative association of the large industrialists; it had a center-right political orientation and presented an historical continuity with the Fascist Corporation of the Large Industrialists. By contrast, the CNA originated from the Resistance Movement, had a strong leftist political orientation, and considered big businesses, the “large monopolists” the natural enemies and exploiters of small businesses. For all these reasons, the association had strong political incentives to disrupt this sort of ‘monopoly of representation’ of the Confindustria and pursue a strategy of autonomous industrial relations with the labor unions.

Second, the sustained process of economic development of the 1960s had fostered the growth of the Emilian artisan firms and consolidated them as a distinct economic group from the workers. The initial affinity of interests between self-employed artisans and workers had started to transform into a strategic alliance between two separate and sometimes conflicting social groups, especially with regard to labor issues inside the artisan firms. Therefore, in order to reaffirm the credible commitment to the political

representation of the artisan firms, the association needed to loosen the political and institutional ties with the CGIL, the labor union of the Communist Party.

In order to consolidate its reputation among artisan firms as the most reliable representative association of Emilia Romagna, the CNA needed to pursue an independent political line and establish a clear divide over the preexisting blurred organizational and political boundaries with the CGIL. As a matter of fact, the struggle of the association to institute an autonomous bargaining table *vis-à-vis* the CGIL was part of the strategy of progressive independence of the CNA from the labor union. Creating a separate bargaining table for the artisan sector would have allowed the association to overtly stand in contrast with the CGIL over the most controversial labor issues, thus tangibly reaffirming the commitment of the association to the interests of the artisan firms.

Third, the institution of a separate bargaining table would have enabled the association to serve more effectively the interests of the artisan firms. In fact, under the unified system of industrial relations the Confindustria and the CGIL were the main players of the bargaining game. As a consequence, the collective labor contracts were usually tailored on the characteristics of large firms and alternatively reflected the relative strength of the industrialists or of the labor unions. By contrast, the introduction of a separate bargaining table for the artisan sector would have favored the stipulation of collective contracts better suited to the economic characteristics of the artisan firms.

If the CNA had strong incentives to pursue autonomous negotiations for the artisan sector, also the Confindustria and the CGIL had valid motivations to oppose the separation of the bargaining tables for large and artisan firms. On the one side, the Confindustria perceived the introduction of separate negotiations for the artisan sector as

a direct attack to its monopolistic bargaining power in representing all the typologies of firms. On the other side, the CGIL was hostile to the negotial autonomy of the CNA for more tactical reasons, mainly related to its usual bargaining strategy under the existing system of industrial relations.

In fact, the CGIL usually relied on its close political and often personal ties with the CNA to induce the association to accept its bargaining proposals in advance, before the final confrontation with the Confindustria. In this way, the labor union could increase its bargaining strength *vis-à-vis* the Confindustria by showing that small businesses were ready to accept its contractual platform. In other words, the CGIL leveraged on its personal⁶⁸ and political ties with the CNA to consolidate its bargaining position in relation to the Confindustria. The ‘forced’ agreement with the artisan association was simply instrumental for the real negotiations with the large industrialists about the collective labor contracts.

As a matter of fact, the CGIL was hostile to the bargaining autonomy of the CNA, because the institution of two separate and independent tables of negotiation for large and small firms would have short-circuited its traditional bargaining strategy with the Confindustria. However, there are also more profound ideological reasons that induced the CGIL to oppose the bargaining autonomy of the CNA with respect to labor issues.

⁶⁸ Many CNA officials recall that the CGIL exerted a tremendous pressure to induce the association to sign the contracts. The pressure was both at the political and personal level as a consequence of the common political militancy of both the labor union leaders and the officials of the CNA. Often, there were intense friendship ties between the two counterparts and the refusal to sign the labor contracts had serious repercussions on the personal life of the CNA’s representatives. Alfredo Tosi, leader of the CNA in Modena from 1961 to 1978 and main supporter of the progressive independence from the CGIL, remembers the battle for the bargaining autonomy of the association as extremely painful at the personal level.

CGIL and CNA: Two Conflicting Interpretations of Productive Decentralization

The ideological hostility of the labor union to the separation of the bargaining tables for large and small firms mainly relates to two diverging interpretations of the process of productive decentralization that took place in Emilia Romagna towards the end of the 1960s and all over the 1970s.

The phenomenon of productive decentralization is most of the times controversial and usually leads to two diverging interpretations according to the political and ideological orientation of the observer. What is interesting here is that in this case the two observers, the CNA and the CGIL, have a similar leftist ideology and share a common political orientation. Nonetheless, they generated contrasting views and interpretations of productive decentralization.

On the one hand, the CGIL considered small businesses intrinsically weak, subordinate and economically dependent on large firms. According to this view, there is a strict organizational and economic interrelation between big businesses and small firms; the latter constitute simply separate branches of the former and are part of the broader strategy of the large industrialists to undermine the mobilizing power of the labor unions. Productive decentralization is a top-down process exclusively led by big businesses in the attempt to prevent the unionization of workers and increase the degree of exploitation in the work place.

Consequently, labor unions have to oppose this phenomenon and prevent the introduction of a separate bargaining table for the artisan sector. In fact, only the stipulation of a single labor contract both for large and small businesses might assure the similar treatment of the workforce both in large and small firms, thus eliminating the

risks of higher labor exploitation usually associated with productive decentralization. The CGIL advocated for the preservation of the existing system of industrial relations because it sought to apply the collective contracts stipulated with the Confindustria also to small firms. According to the CGIL, this was the best strategy to elevate the working conditions in small firms to the higher labor standards it had granted to the workers of large plants.

On the other hand, the CNA had a less ideologically biased and more positive view of the phenomenon of productive decentralization. The association based its interpretation of this phenomenon on the continuous and direct monitoring of the transformations of the industrial structure of Emilia Romagna. First of all, the association completely dismissed the hypothesis of a strictly interrelated and subordinate position of the artisan firms with respect to large businesses. As a matter of fact, the internal analyses of the association showed that for 1975 as little as 8% of the artisan firms in the province of Bologna were dependent on a single buyer. Equally, for the province of Modena, small businesses in the metalmechanic and garment sectors had access to the final market and limited their degree of reliance on a single large buyer to no more than 20% of their productive capacity.

For example, at the beginning of the 1970s in Modena, the crisis of the Maserati, the second largest sport cars producer of the province beside the Ferrari, had a limited impact on the local small metalmechanic suppliers. In fact, the orders of the Maserati accounted for a maximum of 27% of the total sales of these local suppliers, whose economic fate was therefore mostly independent from the vicissitudes of their large buyer.

In brief, the majority of the artisan firms associated with the CNA were not mere operative branches of the large firms and did not correspond to the stereotype of the dependent small firm surviving at the expenses of labor. Rather, besides the subjective evaluation of the CNA, the independence and economic soundness of the Emilian small businesses is also widely recognized in the literature (Sabel 1982;⁶⁹ Piore and Sabel 1984⁷⁰). Anyway, the relative independence and economic soundness of the small-scale industrial structure of the Emilia Romagna during the 1970s did not come out of the blue, but resulted from a consciously pursued campaign of the CNA all over the previous decade.

In fact, the economic recession of 1962 had almost destroyed both the metalmechanic and garment sectors in the provinces of Bologna and Modena. Many small firms went out of businesses or suffered enormous losses as a consequence of their complete dependence on a single buyer. Learning from this painful experience, the CNA of Bologna and Modena started a massive and sustained campaign to avoid the dependence of the firms on a single buyer. All over the 1960s, the association constantly advised and pressured member firms to diversify their portfolio of clients and avoid the reliance on a sole large buyer⁷¹. As a result, the productive decentralization of the 1970s could show its bright side in Emilia Romagna and give rise to the so-called model of *flexible specialization* (Piore and Sabel, 1984)⁷².

⁶⁹ Sabel, C. 1982. *Work and Politics. The Division of Labor in Industry*. Cambridge. Cambridge University Press.

⁷⁰ Piore, M. – Sabel, C. 1984. *The Second Industrial Divide: Possibilities for Prosperity*. New York. Basic Books.

⁷¹ For example, during 1963 the association held more than 1600 meetings to pursue member firms to diversify their portfolios of clients and avoid the dependence on a single buyer.

⁷² Piore and Sabel. 1984. Op. Cit.

In addition, the CNA had a positive view on the effects of productive decentralization on labor because the specialized workers of the artisan firms earned on average higher salaries than in large industries, at least in Bologna and Modena. Moreover, working conditions and the respect of the labor standards were on average satisfying, despite the formally lower level of legal safeguard of the workers in the artisan sector⁷³. This was due in part to the diffused level of unionization of the workers, and in part to the administrative support of the association that enabled small firms to resort to formal employment practices.

Finally, the CNA considered the introduction of a separate bargaining table at the national level for the artisan sector as an opportunity for the labor unions to directly negotiate with the artisan firms better labor contracts for the workers, and fill at the contractual level the existing gaps of the formal legislation. Actually, this was not a new option and as we will see in the next section, both the CNA and the labor unions had been stipulating labor contracts for the artisan sector on a territorial basis for a long time.

The Contractual Autonomy of the CNA: a Brief History of the Struggle

The overall argument of the previous sections is that the desire for political recognition of the CNA stimulated the association to pursue the introduction of an autonomous bargaining table on labor issues for the artisan sector. This political strategy forced the association to recognize the labor unions as legitimate counterparts, and to

⁷³ In fact, the *Statuto dei Lavoratori* (Law 300 of 1970), the labor statute granting union rights and better labor standards to the workers, was not applicable to the artisan sector and consequently left the employees of the artisan firms with lower formal guarantees.

pressure member firms for the application of the collective labor contracts. Moreover, the political emphasis put on the institution of a solid system of industrial relations also for the artisan sector, induced the CNA to provide both administrative services and labor counseling to the artisan firms.

The provision of these services was aimed at enabling small businesses to comply with the labor legislation, and promote the recourse to formal, rather than irregular employment practices. In turn, the diffusion of regular employment practices, along with the constant monitoring of the labor unions, prevented small businesses from competing on a low-cost strategy based on the exploitation of the workers. As a result, small businesses resorted to a competitive strategy based on product quality, process innovation, and rational management. Ultimately, this competitive strategy proved to be particularly successful and assured high rates of development to the region.

As I have mentioned in the previous sections, the ignition of this development mechanism was neither instantaneous nor natural. Rather, it required the deliberate and sustained effort of the CNA to pursue the institutionalization of an autonomous system of industrial relations also for the artisan sector. What follows is a concise historical reconstruction of this struggle and it is aimed at putting in historical perspective the issues discussed in the previous sections.

In 1959, the CNA of Bologna moved a first step towards the recognition of an autonomous bargaining capability of the association, by reaching a territorial union agreement with the metalmechanic workers over a wage increase for the category. This agreement ended the strikes in the artisan firms of the province, while at the national

level the Confindustria and the CGIL got stuck in a bargaining stalemate for other several months.

What is interesting about this territorial agreement is that it introduced the practice of negotiating at the local level over labor issues, even when the position of both the association and the labor unions remained distant at the national level. As a matter of fact, the CNA in Bologna and Modena reached several territorial agreements with the labor unions all over the 1960s, despite the absence of a formally autonomous bargaining table for the artisan sector.

In 1961, the XV congress of the CNA in Bologna affirmed for the first time the necessity to increase the political autonomy of the association from the CGIL and the Communist party. As a matter of fact, the consolidation at the local level of the CNA as the most reliable representative of small businesses had started to reduce the tolerance towards the intrusions of the PCI and CGIL in the decision-making process of the association. The relations with the political party and the labor union were becoming strained as a consequence of the creeping denial of the CNA to be simply a 'transmission belt' of the political strategy of the PCI.

On February the 2nd 1964 in Rome, after a long period of internal strives and under the continuous pressures of the CNA, the three national labor unions, CGIL, CISL, and UIL signed with the CNA and the Confartigianato, the centrist artisan association, a general agreement which recognized the artisan associations as legitimate contractual counterparts. The agreement also set the formal framework for the future institution and regulation of a separate system of industrial relations for the artisan sector. This agreement represented a first important political victory of the association in this field.

However, the actual implementation of this agreement was procrastinated for several years.

The battle for the recognition of the contractual autonomy of the association suffered a particular defeat in 1969, when the CNA of Bologna became victim of the tough confrontation between the CGIL and the Confindustria. The overheated political climate relative to the incipient *Autunno Caldo*, a period of social unrest caused by the harsh confrontation of the labor movement with the most conservative parts of the Italian society, adversely affected the negotiations between the Confindustria and the labor union, over the elimination of territorial disparities for the salaries of the workers on the metalmechanic sector.

Even though the CNA of Bologna was in favor of the reduction of the wage gaps between the so-called industrial triangle (Milan, Turin, and Genoa), dominated by large firms, and Emilia Romagna, with a prevalently small-scale industrial structure, the strikes inside the artisan firms and social unrest lasted for several months. This was a consequence of the strategy of 'maximum conflict' pursued by the CGIL against the Confindustria. As a matter of fact, the intense period of strikes inside the artisan firms was a sort of 'side effect' of the harsh confrontation between the CGIL and the large industrialists. The inability of the association to reach a separate compromise with the labor unions and end the strikes inside the artisan firms arrested for a while the process of contractual autonomy of the CNA.

Finally, in the early 1970s, the CNA was able to establish the separate negotiation with the labor unions for the artisan sector as the prevalent system of industrial relations in Emilia Romagna. In fact, in 1971 it signed the collective contracts for the ceramics and

transportation sectors. In 1972, the association reached several independent agreements for the barbers, the goldsmiths, and more importantly, the garment sector. In 1973, it stipulated the collective contracts for both the construction and furniture sector. Finally, in 1974, the CNA stipulated with the CGIL, CISL, and UIL, the first national labor contract for the metalmechanic sector. That was the final ratification of the autonomous bargaining power of the association.

The final recognition of the autonomous bargaining power of the association was part of the larger process of progressive independence of the CNA from the external influence of both the CGIL and the PCI. In fact, it is no accident that during this same period, first the CNA of Bologna in 1973, and then the national level of the CNA in 1977 established that the officials of the association were no more allowed to hold directive positions inside the political parties, or run for political elections and public offices. The introduction of this rule aimed at drawing a clear dividing line between the internal leadership of the association and the political strategies of both the CGIL and the PCI. As a matter of fact, it is safe to say that only during the second half of the 1970s, after the introduction of this new political approach, the CNA started to gain real independence from the external political pressures.

In conclusion, the political battle of the association for the recognition of the contractual autonomy had two important developmental effects. First, it instituted a formal system of industrial relations also for the artisan sector. The association had strong internal incentives (prestige *vis-à-vis* the other representative associations and political independence) to constantly pressure its members for the application of the labor contracts. As a result, an unusually high proportion of small businesses resorted to

regular employment practices. For example, more than 60% of the artisan firms in Bologna had introduced an autonomous labor contract for the artisan sector by 1974.

Second, the association supported the formalization of the employment practices with the provision of labor counseling and payroll services. This administrative assistance enabled the artisan firms to increase their degree of compliance with the labor legislation. As a result, the higher degree of compliance with the labor standards prevented small businesses to compete with a lowest-cost strategy. Hence, the so-called 'high-road' to development became the most practiced competitive alternative among small businesses.

Conclusions

Part I : The Burden Relieving Approach in Perspective: the 'Strategic' Activities of the

CNA

The main argument of the last three chapters is that the administrative, traditional, and burden relieving approach to small business development of the CNA had unexpectedly developmental effects on the artisan firms of the Emilia Romagna. Labor counseling, payroll, fiscal, and accounting services have administratively relieved and at the same time enabled small businesses to comply with the labor and administrative legislations, compete on product quality rather than lowest costs, and more in general to pursue the so-called 'high road' to development.

These administrative services fostered at least three developmental processes. First, they favored the formalization of the firms by supporting and facilitating the transition to formal accounting practices and to a modern and more demanding fiscal system after the reform of 1973.

Second, the traditional services have fueled the organizational growth of the association. In turn, the progressive accretion of both technical and professional expertise internal to the organization gave rise to a second generation of more advanced administrative services during the 1980s, such as supply chain analysis, budgeting control, and buyer-supplier matching. These market-enhancing services furthered the process of managerial rationalization of the firms. They promoted the transition from a

'rustic' and more intuitive way of conducting business to a scientific, marketing oriented, and strategic planning approach to business administration. This process increased tremendously the competitiveness of the firms.

Third, the provision of labor counseling and other labor-related services, along with the campaign of the association for the institution of a formal system of industrial relations for the artisan sector, encouraged the diffusion of regular employment practices and, to some extent, the respect of labor standards also in small workshops. The enforcement of both labor regulations and formal labor contract was also supported by the high degree of unionization inside the artisan firms. All these conditions, the ready availability of labor-related services, the existence of a solid system of industrial relations, and the enforcement of the labor regulations, prevented the artisan firms from competing on a lowest-cost strategy. As a result, small businesses had to find alternative sources of competitiveness such as the optimization of the productive process, or product quality. They had to choose the so-called 'high-road' to development.

Before drawing additional conclusions about this 'minimalist', relieving, and at the same formalizing approach to small business development, we need to put the foregoing analysis in perspective and briefly acknowledge the developmental impact of the main strategic activities of the CNA. In fact, it is safe to say that the rise of a dynamic small-scale industry in Emilia Romagna was encouraged by a developmental mix of both strategic activities and real administrative services.

In this paper I have focused the analysis on the traditional, administrative, and burden relieving activities to show their usually ignored enabling and developmental nature. I have argued that their initially less invasive and minimalist approach provides a

better sequencing to small business development activities, because it does not require the immediate transformation of the production and marketing processes of the firms in the short run. Rather, it supports the progressive administrative upgrading of the firms and favors the smooth transition to a more managerial and strategic way of conducting business. It does so both by disclosing market and productive opportunities not accessible to less scientifically managed firms, and by making the fall back to backward business strategies and irregular employment practices increasingly difficult and easily noticeable by formal authorities and labor unions.

However, this administratively based and burden-relieving approach to small business development came together with a series of more performance-enhancing, production-targeted, and strategic activities of the CNA. Three of them deserve special attention: the so-called Artisan Villages, the dense network of producers' consortia and cooperatives created by the association, and the strategic partnership of the CNA with the Regione Emilia Romagna for the constitution of a regional system of innovation centers. For the purposes of this paper I intend to acknowledge the relevance of these phenomena, suggesting the need for further research.

The Artisan Villages

Since 1953, the CNA of Bologna and Modena promoted the creation of industrial sites for the artisan firms. This 'targeted' activity aimed at reducing the bottlenecks of the production process and supported the formalization of the firms. This activity had a tremendous impact on the firms in terms of productivity gains because it allowed the modernization of the productive process, the optimization of the logistic system, and the

respect of environmental, product quality, and labor standards. The provision of a safe production place and physical infrastructures required the strict cooperation of the association with the municipalities and the other local authorities. More interestingly, this activity originated from the overall political strategy of the association to ‘fight against monopolies’ and set the artisans free from the ‘capitalistic speculation’ on the industrial sites.

The creation of these Artisan Villages had the important developmental effect of taking out of the basements the multitude of small productive activities resulting from the massive layoffs of the 1950s⁷⁴. In turn, this created the material conditions for the rise of serious manufacturing activities and the formalization of the firms with respect to both administrative and labor regulations.

To appreciate the real dimensions of this phenomenon we can consider that only in the municipality of Modena more than 923 firms located in the artisan villages from 1953 to 1984. These firms amounted to 30% of the artisan firms in the urban area and the number of firms located in the numerous artisan villages of the province is by far larger. Similarly, the CNA of Bologna had created around twenty-one industrial sites by 1975.

In conclusion, it would be interesting to understand to what extent the process of small business clustering in Emilia Romagna was spontaneous and resulted from economic, social, and productive factors, and to what extent it was institutionally led by the CNA.

⁷⁴ For example, in 1953 the first artisan village of Modena hosted in prevalence the unionized workers fired by the Fiat Trattori and by the other large firms at the beginning of the 1950s. The provision of a safe productive environment enables these self-employed workers to upgrade and expand their activities.

A Dense Network of Consortia and Cooperatives

Another strategic activity of the CNA since 1945 was the creation of several consortia for the acquisition of the raw materials, for the procurement of work, for export, and for the management of the industrial sites. The constitution of producers' consortia is a strategic activity because it is aimed at resolving specific production or marketing problems; it is aimed at eliminating any kind of bottleneck to production and is problem solving oriented. At the same time this activity is also targeted because it involves only a specific subset of member firms, namely those firms that share similar sectoral characteristics or the same kind of problems.

What is important to note about the producers' consortia is that they are at the same time performance-enhancing and performance-demanding. For example, the consortia for the procurement of work are performance-demanding because they impose both product quality standards and tight schedules of work on member firms. This demanding nature of the consortia directly impacts on the production process of the firms, and requires the reorganization of the usual way of conducting business. As a result, member firms are constantly stimulated to upgrade their productive process and keep up with technological innovation.

The producers' consortia are also performance-enabling because they provide both market and innovation opportunities otherwise not available to small businesses. For example, the export consortia reduce the risks of exploring new markets because they provide at the aggregate level the marketing, legal, and logistics services relative to exporting in international markets. In this way, member firms have access to international markets usually not accessible to the individual small firm.

At the other end of the supply chain, the consortia for the acquisition of raw material reduce the costs of inputs and support the optimization of the management of the stocks. They do so by providing at the aggregate level a greater buying and market power that small firms usually do not have. In this sense they are performance-enhancing because they enable cost reductions and the rationalization of the production flow.

The CNA started to constitute producers' consortia few months after the end of World War II. Also in this case, the involvement of the association responded to the leftist ideological impetus of 'fighting against the monopolies'. In fact, the association conceived the aggregation and clustering together of small businesses, as the only viable strategy to undermine the dominance of large businesses both on the production and final markets.

As a result of this politically oriented competitive strategy for small businesses, the CNA of Bologna and Modena created a dense network of artisan cooperatives and producers' consortia. This pervasive system of collective organizations has contributed over time to govern and regulate the small-scale industrial structure of Emilia Romagna by imposing both performance standards and behavioral rules on the artisan firms. The actual functioning of this governance system deserves further investigation.

For now, it might suffice to gauge the real dimensions of this phenomenon, and consider that the CNA supports over 60 consortia for the only province of Modena. These consortia associated around 10,500 firms in 1986, directly employed 162 units, and had a turnover of 110 billion liras. Their sectoral distribution entails: 9 procurement consortia for transportation, 9 in the construction sector, 4 marketing consortia, 15 procurement consortia for the other sectors, 3 export consortia, 3 credit consortia, 3 insurance and

information consortia, and finally 14 consortia for the management of the industrial sites. All these data suggest that far from being spontaneous, or market-led, the growth of the small-scale manufacturing productive system of the Emilia Romagna was regulated and promoted by the collective producers network of the CNA.

The Strategic Partnership with the Emilia Romagna Region: The ERVET System

A third strategic activity of the CNA relates to the co-participation with the Regione Emilia Romagna to the creation of the regional development agency, the ERVET. Since the constitution of the Italian regions in 1970, the association has constantly pressured and cooperated with the regional government for the creation of a system of innovation centers. While the developmental impact of dedicated sectoral service centers, such as the ERVET, is widely recognized in the literature (Brusco and Righi 1989; Pyke 1992; Schmitz and Musyck 1994)⁷⁵, the active pressuring and involvement of the CNA is almost forgotten.

As a matter of fact, the Regione Emilia Romagna promoted the creation of a regional system of targeted services and innovation centers, because it was under the constant pressure and monitoring of a demanding partner such as the CNA. Without the political representation of the association, small businesses would have probably not been able to effectively pressure the regional institutions.

⁷⁵ Brusco, S. – Righi, E. 1989. *Local government. Industrial policy and social consensus: the case of Modena (Italy)*. In *Economy and Society*. Vol. 18. No. 4 (1989).

Pyke, F. 1992. *Industrial Development through Small-Firm Cooperation: Theory and Practice*. Geneva. ILO.

Schmitz, H. – Musyck, B. 1994. *Industrial Districts in Europe: Policy Lessons for Developing Countries?* In *World Development*. Vol. 22. No. 6. pp. 889-910.

In other words, even though the CNA did not directly provide innovation services (actually started to provide them only in the 1990s), it played a crucial role in the creation of the ERVET. This regional development agency entails sectoral service centers such as the CITER (textiles), the CERCAL (shoes), the QUASCO (building industry), and the CESMA (farm machinery). In addition, the ERVET also supports four service centers providing services to different sectors: the SVEX (export promotion), the RESFOR (promotion of subcontracting in metal industry), the CERMET (quality upgrading), and the ASTER (technology development).

The existence of these innovation and service centers provided at the aggregate level both the technology and the minimum efficient scale of investment to support innovation. The ready availability of new production techniques and targeted real services enabled small businesses to constantly innovate both products and production processes. As a result, the competitive strategy of constant product and process innovation improved the economic performance and consolidated the market position of the firms. Also in this case, it is important to remember that behind this ‘high road’ development mechanism there was the active, though indirect, involvement of the CNA.

Part II : *General Findings*

In the previous section I have argued that the traditional, administrative, and burden relieving services of the CNA had at least three developmental effects with respect to the process of *formalization* of small businesses, the progressive *upgrading* and

rationalization of the management of the firms, and the positive influence of *solid industrial relations* in both preventing the diffusion of a lowest-cost competitive strategy and fostering the respect of labor standards among small firms. In sum, a central theme of this paper is that there is a ‘burden relieving’ approach to small business assistance with desirable developmental outcomes.

This sort of ‘third way’ to small business development stands in between the two prevailing approaches to small firms support: the ‘burden relieving’ *versus* the ‘strategic’ approach (Tendler, 2002)⁷⁶. While the first one advocates for universalist, exempting, and protectionist interventions in favor of small firms, because of their inability to survive in competitive markets, the second approach stresses the importance of targeted, performance-demanding, and sectoral-specific policies to increase the competitiveness of small businesses. While the exempting, protectionist approach usually leads to economic stagnation because it is unable to stimulate innovation; the strategic approach is often associated with sustainable economic development.

With respect to this debate on small firms support, this paper suggests the existence of a second type of ‘burden relieving’ approach; a *developmental burden relieving approach* that relieves and at the same time enables small firms to be competitive and comply with the formal regulations, rather than simply exempting them. This is the case of the ‘traditional’ administrative services of the CNA, which had a ‘burden relieving’ spirit, in recognizing the inability of small firms to comply with the formal regulations, but a performance-enhancing effect in supporting both the formalization and the administrative upgrading of the firms over the long run.

⁷⁶ Tendler, J. 2002. *Small Firms, the Informal Sector, and the Devil’s Deal*, in *IDS Bulletin*, Vol. 33, No. 3, July 2002.

However, these services did not happen in an institutional *vacuum*, but responded to and, at the same time, supported the need for political recognition and the expansionary organizational tendency of the CNA. This leads us to two additional considerations. First, the CNA provided effective, and eventually developmental, administrative services because it had strong institutional incentives to do so. In fact, these services financed the organizational growth of the association, and, more importantly, supported the progressive political and contractual autonomy of the CNA *vis-à-vis* the Communist Party, the other representative associations such as the Confindustria and Confartigianato, and the labor unions.

For this reason, the association did not limit its activity to lobbying for direct subsidies, exempting-all regulations, or protectionist interventions, but provided also administrative services that enabled the compliance with the law. This is not to deny that the CNA campaigned for tax reductions, soft credit, or a special regime for the artisan sector with respect to labor regulations. Rather, it was in the self-interest of the association to go beyond the simple request for these kinds of interventions, and provide law-compliance-enabling and performance-enhancing administrative services. As a matter of fact, while tax breaks or other exempting interventions had almost no effect on the association, these latter administrative services greatly influenced the organizational growth and political consolidation of the CNA.

Second, and more generally, the previous consideration leads us to conclude that the existence of intermediate institutions, such as the CNA, with strong financial and political incentives to the provision of law-compliance-enabling administrative services, constitutes the main differentiating factor between the two types of burden relieving

approach to small business development. While the absence of producers associations with internal incentives to the provision of administrative services, leads to the request for exempting-all and protectionist interventions, with the nefarious outcome of stagnating local economies. The existence of representative associations, whose main source of revenues is the provision of real services, favors the administrative upgrading of the firms and the compliance with the law. This different kind of burden relieving approach *with services* makes compliance with the legislation an economically bearable and manageable task also for small businesses. As a result, three developmental processes occur: the *formalization* of small businesses, the *rationalization* of the management of the firms, and competition on quality, rather than lowest-costs, due to the respect of *labor standards*.

A final point, with respect to the ‘burden relieving’ vs. ‘strategic’ debate on small firms support, is that these two approaches are not mutually exclusive, but self-reinforcing, especially in the case of burden relieving approach *with services*. In fact, as I have argued in chapters IV and V, labor counseling, payroll, accounting, and fiscal services have supported the formalization of the artisan firms over time. However, these services alone would have had a lesser impact on member firms, if not supported by the contextual existence of the producers’ consortia and the Artisan Villages.

Indeed, these latter strategic activities created the material conditions (increasing profitability and adequate production sites) for the respect of the formal regulations. At the same time, the administrative services of the CNA encouraged small businesses to formalize an increasing share of their activities. As long as formalization proceeded, small businesses could not resort anymore to irregular business and labor practices.

Eventually, small businesses sought alternative sources of competitiveness and started to appreciate the importance of the strategic activities of the CNA, thus closing the self-reinforcing and highly developmental circle between administratively relieving and strategic activities.

Capitalism Out of Communism: the Common Thread of Politics

Politics represents the common thread of this story and has exerted an overall positive influence on both the association and the development of the artisan firms. First of all, it is important to remind that the origins of the Emilian artisan class and of the CNA are political. In fact, the creation of a politically oriented artisan class in Emilia Romagna dates back to Fascism, when many political activists resorted to self-employment for economic survival as a consequence of the Fascist persecutions. Also the origins of the CNA are political and strictly related to the Resistance Movement and Antifascism. Furthermore, the rise of a small scale manufacturing industry during the 1950s derives from the massive layoffs of unionized workers in large factories to decapitate the then reorganizing labor movement. In brief, the creation of one of the most dynamic forms of capitalism has deep Communist political roots.

Second, the leftist political orientation of the CNA has greatly influenced the approach of the association to small business development, with surprisingly positive effects. In fact, according to the communist ideological roots of the association, small business development should not occur at the expense of labor. Rather, the development of small businesses configures itself as a progressive ‘fight against the monopolies of big businesses’. This politicized approach to small firms support had two developmental

effects. First, the emphasis on the respect of labor standards, and the active pressuring of the association on member firms, precluded for ideological reasons the recourse to a lowest-costs competitive strategy. This induced both the association and the firms to seek alternative and more 'strategic' sources of competitiveness. Second, the 'fight against the monopolies' resulted in several targeted and developmental activities such as the creation of producers' consortia, cooperatives for credit, the Artisan Villages to reduce the speculation on real estate, and the massive campaign to avoid the dependence on a single buyer.

Third, it is important to remind that the existence of a common political identity between the artisan class and the association had a crucial role in holding together several thousands of self-employed workers during the first phase of political and social unrest, and economic stagnation. The multitude of unionized workers, laid off during the 1950s as a consequence of their union activism in the large factories, perceived the CNA as the natural and most appropriate representative body of their leftist political orientation. In other words, these self-employed workers had a strong political affinity with the CNA and joined the association mainly for this reason. The common political identity, more than the provision of real services, is what associated this multitude of self-employed workers and enabled them to find joint responses to the dire economic and social situation of the 1950s.

The strong leftist political identity of the Emilian artisan class is what enabled the association to represent an otherwise silent and individualist social group. Political representation is what enabled the CNA to overcome one of the main weaknesses of small businesses; namely, their inability to interact with the public institutions, and

negotiate *au pair* with them the regulations and policies that affect their activities. The common political militancy of the associates greatly strengthened the mobilizing power of the CNA. In turn, the ability to mobilize with strikes and public demonstrations a relevant share of the Emilian productive structure consolidated the bargaining power of the association *vis-à-vis* the local institutions. As a result, the political intermediation of the CNA, and continuous monitoring of the performance of the public institutions, has increased over time the accountability of the local institutions towards small businesses. Finally, the cooperative relations and the reciprocal accountability with the public institutions have increased the degree of formalization of the firms and stimulated the respect of environmental, fiscal, and labor regulations.

Fourth, political activism and the supply of real services are intertwined and self-reinforcing. They constitute two faces of the same developmental strategy. In fact, the political campaigns of the association have usually set the stage and created the institutional framework for the introduction of the real services. For example, during the 1950s, the political activism of the CNA, both in terms of legislative proposals and continuous public demonstrations, for the introduction of a welfare system also for the artisan sector set the institutional framework for the future provision of the fiscal, accounting, and labor administrative services.

As a matter of fact, the successful political campaigns of the association for the introduction of a welfare system and, more in general, for the regulation of the artisan sector did not simply request exempting-all, protectionist, or burden relieving interventions for the sector. Rather, the request for the legal recognition of the category, through the so-called Artisan Act (Law 860, July 25th 1956), actually involved a higher

degree of regulation for the artisan sector. This new institutional framework, in its turn, called for a higher degree of formalization of the artisan firms, thus rendering the provision of administrative services a crucial element of the overall strategy of formalization of the firms. In brief, it seems safe to say that political activism is what stimulated and, at the same time, called for the provision of small business development services.

In conclusion, the overall positive influence of the leftist political culture of the CNA on the development of a dynamic small-scale industry can be summarized by the following sentence of an old partisan, union leader, political activist, and director of the CNA: “Here in Emilia Romagna the Communist have ceased to ‘eat their young’ long time ago; they preferred to make business”.

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