

The Industrial District and the ‘New’ Italian Economic Geography

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ABSTRACT *The industrial district is one of the theoretical concepts by which Italian economic geography has redefined a large part of its scientific and methodological status. The successful of industrial district is linked to the explanation of the Italian model of light industrialization, that is to the role played by small firms in Italian manufacturing industry. Nevertheless, it is worthwhile to know that industrial district was introduced as a theoretical paradigm to stress the territoriality of the production process and the gain of productiveness and innovativeness for the firm which sources from the embedding of economic activity within the local society where the production takes place. Support for this approach is found in the Marshallian external economies. This article addresses the importance of industrial district from the point of view of this neo-Marshallian reading of the organization of production. This framework of reference provides the basis for the formulation and implementation of local policies which recast traditional economic, social and infrastructural ones as specialist policies aimed at the creation of the institutional and environmental conditions for the competitiveness of places.*

1. Introduction

The industrial district is one of the theoretical concepts by which Italian economic geography has redefined a large part of its scientific and methodological status. The industrial district has asserted itself in Italian economic geography following rediscovery of Marshallian external economies and revaluation of the territory as territorial society, and of place as the unit of analysis, and classification, of the economy and society. This has come about through recovery of a tradition of geographical analysis long neglected by geographers themselves since the time when economic geography was recast as spatial economics.

The resurgence of the industrial district has undoubtedly been due to the debate on the role of the small firm in the Italian economy. This was a problem already important at the time of the ‘economic miracle’ (in the post-war period until the early 1970s), but for which the theory then current—bound to the notion that only economies of scale yield production efficiency—could not find an explanation and did not deem one necessary. The interpretative difficulties raised for social scientists by Italian economic change in the mid-1970s led to rediscovery of the industrial district as a possible conceptual framework for “empirical

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observations in search of a theory”, namely the flourishing of the Italian small firm, the efficiency and competitiveness of which could only be explained in terms of Marshallian external economies.

Further impetus was given to use of the concept of industrial district by reflection on the crisis of Fordism and by the onset of a new model of industrialization—‘post-Fordist’, for the sake of brevity—where a production process based mainly on ‘internal’ (corporate) integration and coordination was replaced by another and very different one based mainly on the ‘external’ (territorial) integration and coordination of individual production units of small and medium size by a set of local institutions centred on a system of phase markets.

These theoretical reflections on the nature of Italian industrial capitalism have been accompanied by the growth of a robust body of empirical research which has identified industrial districts in Italian economic reality by using the local system as its unit of analysis (Tessieri, 2000).

Legal recognition of the industrial district (law 317/91) and the economic policy provisions consequent upon it have helped popularize the term ‘industrial district’, to the extent that it is now part of current language.

In this article I shall address the theme of the industrial district from the point of view of economic geography, focusing on the some of the aspects mentioned earlier.

2. Marshallian External Economies and the Industrial District

The empirical finding of cumulative processes and increasing returns in a geographically concentrated production process—as compared to an isolated one—has found theoretical explanation in Marshall’s treatment of the external economies connected with the concentration of specialized industries in particular localities. Hence derives the expression ‘external economies of localization’, to which the neo-Marshallian geographical literature refers as ‘local external economies’ or ‘economies of organization’. The external economies provide the basis for the theoretical construct that goes by the name of industrial district (Becattini, 2000).

The fact that Marshall analysed local external economies within the theoretical framework of industrial organization may probably account for their neglect by economic geographers and regional economists, and not only in Italy. The main scholarly concern has been the problem of industrial localization—that is, the universal factors responsible for the decision to locate a plant in a particular geographical site—rather than explanation of the process of industrialization to yield understanding of the variety of patterns assumed by local development. Influencing this attitude has been the fact that the firm has been taken to be the fundamental unit of analysis, while the industry has been pushed into the background. Conversely, in the Marshallian system the two notions—of firm and industry—are inseparable, to the point that some authors have declared that in Marshall “the industry is conceived as the *milieu* in which individual firms live and is the very condition for their life” (Bruguier Pacini, 1953, p. 75; quoted in Becattini, 1962). This is because a firm, like an individual, is never considered in isolation from the socio-economic relations of either the sector (the set of entrepreneurs) or of the place (the local society) to which it belongs. The key to understanding the origins of the notion of local external economies in Marshall’s thought lies in his inclusion of organization among the agents of production, and in his emphasis on knowledge (cognitions) as a constitutive element:

The agents of production are commonly classed as Land, Labour and Capital. [...].

Capital consists in a great part of knowledge and organization: and of this some part is private property and other part is not. Knowledge is our most powerful engine of production; it enables us to subdue Nature and force her to satisfy our

wants. Organization aids knowledge; it has many forms, e.g. that of a single business, that of various businesses in the same trade, that of various trades relatively to one another, and that of the State providing security for all and help for many. The distinction between public and private property in knowledge and organization is of great and growing importance: in some respects of more importance than that between public and private property in material things; and partly for that it seems best sometimes to reckon Organization apart as a distinct agent of production. (Marshall, 1920, p. 115)

The social, and particularly industrial, organization examined by Marshall is subject to processes whereby:

[...] the development of the organism, whether social or physical, involves an increasing subdivision of functions between its separate parts on the one hand, and on the other a more intimate connection between them. Each part gets to be less and less self-sufficient, to depend for its wellbeing more and more on the other parts, so that any disorder in any part of a highly-developed organism will effect other parts also.

This increased subdivision of functions, or 'differentiation', as it is called, manifests itself regard to industry in such form as the division of labour, and the development of specialized skill, knowledge and machinery; while 'integration', that is, a growing intimacy and firmness of the connections between the separate parts of the industrial organism, shows itself in such forms as the increase of security of commercial credit, and of the means and habits of communication by sea and road, by railway and telegraph, by post and printing-process. (Marshall, 1920, pp. 200–201)

Described here is a two-fold process of differentiation/integration which involves both the vertical and horizontal relations of the industrial organism while it also influences the local sphere (rootedness in the local territory) and the global sphere (the overall competitive arena in which it operates).

In the light of this conception of a reality comprising processes and the relative linkages among the elementary units and entities of which it is made up—what today would be unhesitatingly called a biological conception—it is clear that achieving economies in production depends less on the size of the firm than on how production is organized locally and interacts with the social and productive environment in which it takes place. Moreover, the Marshallian industry is marked by a commonality of technology and of social conventions and customs. All of which is reflected in Marshall's endeavour to explain:

what are the causes which make different forms of business management the fittest to profit by their environment, and most likely to prevail over others; but it is well that meanwhile we should have in our minds the question, how far they are severally fitted to benefit their environment. (Marshall, 1920, p. 220)

At the basis of Marshall's concept of local external economies, therefore, lie the advantages of territorial (local) concentration and (sectoral) specialization. These advantages foster: (a) the reproduction of skills; (b) the circulation of knowledge; (c) the development of subsidiary activities in both manufacturing and services (through variety in production); (d) the use of specialized machinery; (e) the formation of a specialized labour market; (e) the development of complementary industries (through variety in employment).

These advantages are evident, and of maximum importance, especially in the case of industrial local systems consisting of small production units. This is because their industrial specialization springs from the above-described mechanism of differentiation/integration,

which operates through the de-composition of firms' production processes into individual phases, and then their re-composition into a dynamic interweaving of competition and cooperation at the level of the local system as a whole. This is not to imply, however, that local external economies are not equally important in the case of industrial local systems focused on (or constituted by) large plants, with the exception of the extreme case of a single, vertically integrated plant orienting local society.

The expression industrial atmosphere in its turn comprises the set of social and productive features that constitute the Marshallian local system, fashioning it into a single whole and qualifying it as a cognitive social system.

In the 1960s, these reflections, backed by theoretical analysis of the concept of 'industry' (Becattini, 1962), led to the rediscovery in Italy of the Marshallian industrial district: as the unit for analysis of the industrial economy as well as the sector; as a model of light industrialization as well as classic (or Taylorist–Fordist) industrialization; and as a theoretical paradigm for the interpretation of economic change because it reintegrated the territory and society—considered always in its concrete and 'local' nature—in economic analysis.

This was the interpretative key that served the endeavour to situate every economic process in the territory in which it occurred, and in relation to local society.

It is natural, therefore, that the industrial district should represent the principal theoretical–practical locus for the local—i.e. geographically based—interpretation of development, given that the linkages between economic–productive relations and socio-cultural relations are inseparable in the industrial district. At the same time, the dynamic congruence of these linkages gives external competitiveness to the firms operating in it, and satisfies the need for social integration of the people who live in it.

Since this analytical approach arose in Italian economic geography—and more in general in the Italian scientific community—economic activities have no longer been studied exclusively in terms of their geographical distribution, as the local projection of an abstract industry defined on a national scale, or in terms of location processes. Analysed instead has been the industry as a factor constitutive of the individual local economies which make up the country's economic system. This new conception of industry assumes the local territorial dimension as its defining component, so that the firm—hitherto detached from the industry and local society—is once again embedded in them.

3. A Definition of Industrial District

In contrast to the theoretical construct of 'growth pole' (Perroux, 1955), the industrial district is a local system characterized by the active co-presence of a human community and a dominant industry constituted by a set of small independent firms specialized in different phases of the same production process.

This 'active co-presence' consists in the fact that the local society exerts an influence on the organization of production which springs from its social culture. A system of values and norms—dominated by a spirit of initiative and largely reflected in the principal aspects of life, like work, consumption, saving, attitudes to uncertainty—produces a cultural environment favourable to economic enterprise, influencing industrial relations and the activities of local government and administration. The marked propensity of individuals and households for self-employment—in its various forms of home work, crafts and small entrepreneurship—favours the formation and spread of organizational skills, creativity, pragmatism and individual and group abilities.

However, the organization of production based on small and medium-sized firms largely coincident with individual production units, connected by specialized transaction networks and coordinated by more or less explicit forms of cooperation, is made possible by the

technical divisibility of the production process, and it benefits from local external economies and internal ones of scale.

This division of labour among firms derives from an expansion in demand for non-standardized goods. Such demand is characterized by marked qualitative fragmentation and temporal variability, in reaction to which the dominant industry of the district displays a dynamic adaptability which meets the needs of both elasticity (quantitative change in demand) and flexibility (qualitative change in production) and arises from the functional skills of its workforce and the specificity of its production formula.

Organizational intelligence, practical abilities, creative talent, craftsmanship, technical skills and innovativeness confer dynamism on the industrial district as a whole and give it competitive advantage in the international market.

The dominant industry of the district—together with its auxiliary industries and the numerous services functional to it—pervades the local environment, providing employment for almost all sections of the population: young people, adults and the elderly, men and women. The result is a local society dominated by small entrepreneurs and self-employed workers, besides employees in industry, and by a high level of labour-market participation by young people and women, both single and married, while families tend to be extended rather than nuclear. It is therefore easy to understand why local society in the district identifies with the territory, rather than with the company, as happens in industrial poles dominated by large-size firms.

An industrial district, therefore, enables a geographical concentration of numerous small specialized firms to organize production efficiently, in similar manner to what happens inside a single large factory. This is made possible by the flows of external economies generated locally among firms and arising from the knowledge, values, typical behaviours and institutions through which local society acts on the industrial organization.

4. The Industrial District and the 'New' Italian Economic Geography

The rise of the industrial district as a theoretical paradigm has compelled Italian economic geography to reflect on the soundness of the interpretation of its origin—established in spatial economics—and to re-assess its geographical identity as the 'science of places'. This has been accompanied by reorientation of empirical research which has led to definition of a territorial classification grid (local systems) as an instrument of analysis which matches the theoretical construct of the industrial district (ISTAT, 1997).

The traditional view of economic geography, and not only in Italy, ties it to the conceptual framework of location theory (and of economic space) centred on the optimal allocation of economic activities in space, where distance plays a decisive role in terms of transport costs. In Italy, this view has been gradually replaced by a conceptual framework of different theoretical inspiration. This framework centres on industrial organization (and geographical concentration) and focuses on the increasing returns deriving to a firm from the way in which it organizes production by integrating with other firms to create a single productive process, and also with the local society in which such production takes place. This conceptual framework, too, was present in economic geography at its origins, but it failed to receive the development that it deserved and was soon abandoned under the predominance of Isard's neo-Weberian interpretation of the spatial nature of economic phenomena (Isard, 1956).

Belatedly reinstated in the early 1980s by Regional Science, Isard's theory was welcomed by economists in search of a way to integrate space into economic analysis, and also by economic geographers, who saw it as a theory able to emancipate them from the role assigned to them by mainstream economics of investigating the influences of the physical environment on economic facts, and who were therefore happy to accommodate regional economists in a

geographical tradition stretching back to the Weberian location theory developed between the two wars (Toschi, 1941). This was a tradition that gave priority to theoretical analysis of the firm–economic space relationship while neglecting the theoretical–empirical strand that had in the meantime consolidated with study of industrial localization in Italy, drawing on Marshallian theory to explain the geographical concentration of certain manufacturing sectors in particular areas of the country (Milone, 1930).

Under the impetus of the notion of ‘industrial district’, which in opposition to space reinstated the territory as the versatile integrator of firms, sectors and society, all of them localized in the same place and therefore belonging to a network of places which approximates the global to the local dimension, over the last 20 years a ‘new’ economic geography has arisen in Italy. This has achieved the reversal of perspective urged by numerous geographers, and by some economists, whereby the territory becomes the unit of analysis and classification of economic and social facts. That is to say, the territory is viewed as a territorial society identified by common residence and formed by demographic features and the operation of an indeterminate number of interests (Nice, 1987). Thus the territory denotes the geographical area pertaining to a population that has settled therein with all its legal, economic and social structures. This sense of territoriality, which on the dialectical plane comes almost to symbolize the man–environment relationship (social and natural together), is also apparent when one passes from the territory as a universal concept to consideration of its concrete components—however these may be identified and in whatever order of magnitude—constituted by places.

For the ‘new’ Italian economic geography, a ‘place’ is a portion of territory to which a human group attributes an individuality which derives from the functions and overall role that it performs in the society’s system of spatial structures. And since the subject, besides the purpose of these functions is the population, whether it lives and acts in the place or whether it visits the place occasionally, the place becomes a social construct.

The most evident function of a place is its habitative one. However, alongside the purely habitative or residential function, inhabited places obviously perform a variety of productive functions by furnishing goods and services to both the inhabitants of the place and those in other places lying a greater or lesser distance away from it. The differing weights of each of these economic, and more broadly social, functions help determine the individuality of individual places and their degree of importance, giving rise to hierarchies of places and networks among places.

A place, therefore, is multifunctional in nature because it results from a diversified set of residential and productive settlements, each of which contributes to its individuality and importance, not simply by adding itself to the others but by exerting a multiplier effect on the whole. It is for this reason that the term place can be straightforwardly replaced by that of local system.

The economic, social and political organization of the territory takes the form of systems of places, so that it is possible to interpret a country’s society and economy in terms of a pattern of local systems: that is, a multiplicity of local systems characterized by different types of productive activity and, especially, by different levels of socio-economic development.

Definition of the local system as a ‘territorially-based socio-economic unit’ enables its use to explain the structure and evolution of society and the economy. Not surprisingly, therefore, some scholars have claimed that local systems constitute the basic category for division of the Globe (Wolch & Dear, 1989). Moreover, with regard to the competitiveness of countries on a global scale, there are those, like Porter (1990), who declare that the economy of a nation is the set of its multiple local economies—or in other words, its concentrated local systems of industrial firms which gain competitive advantages from their geographical proximity—and stress that it is a world-wide phenomenon in that it is to be found in all the most competitive countries.

The fact that a firm's local external environment influences its competitive success over time explains why the most widespread feature of industrial production is geographical concentration, while dispersion (or the relative isolation of a firm) is exceptional.

What comes to be geographically concentrated, however, is not simply a set of firms operating in the same sector, but rather a local society and systems of specialized firms. The latter may consist of either populations of small firms or one (or a few) large firm(s) and the relative industrial tissue. Operating in both cases is the mechanism that generates economies in production by virtue of geographical concentration, although only in the former case can one say that these economies are decisive for the organization of the production process; in the latter case, they are a supplementary factor, albeit one of increasing importance. Indeed, as large firms shift from mass production to mass differentiation—where markets are relatively fragmented and volatile, rather than homogeneous—the role of external economies of organization becomes more and more crucial (Storper & Salais, 1997).

In local systems, differentiated by the socio-economic features of the population and the economic-productive ones of firms, there arise localized networks of traded (economic exchanges) and untraded interdependencies (exchange and acquisition of knowledge) which lie at the basis of competitive advantage. Effective achievement of the latter depends, besides the individual efficiency of firms, on the degree of socio-cultural cohesion, but above all on the presence in the local system, i.e. among the members of local society, of a system of values, and of institutions which represent their interests and regulate their everyday lives. These are conditions that determine the greater or lesser ability of local systems to develop attitudes and to mediate creatively among different forms of knowledge—the knowledge that derives from technical progress (codified knowledge) and that arises from practical experience (tacit knowledge)—thereby fostering the formation of the technical skills required to participate in that particular form of collective action constituted by production. It is through this process of 'versatile integration' that it becomes possible to associate the production of goods and services with the re-production of the human and material factors of production itself, and thus ensure the permanence and vitality of a local system.

The complex organization of the contemporary economy and society displays a relational logic increasingly based on technical, organizational and communicative interactions involving the productive systems of both small and large firms and their places of geographical concentration. Disappearing as a consequence is the duality between the two traditional paths of industrialization—the 'classical' one, based on internal economies and vertical integration, and the 'district' one, based on external economies and without vertical integration—which instead tend to converge. Because these non-material local economies are intangible and specific to particular places, they are difficult to transfer from one place to another. This determines the inevitability of local as the pivot for revision of the criteria of economic-social analysis and, consequently, for integrated analysis of the territory as the theoretical and empirical place where the relationships among population, productive sectors and territory meet and merge (Conti & Sforzi, 1997).

Finally, whilst it is true that in the current phase of capitalism relational networks tend to contract in time and expand in space (so that they are virtually global in their extent), the relations essential for production and the creation of knowledge are still territorially circumscribed, that is, geographically concentrated.

5. Final Remarks

Without the discovery of the industrial district and its affirmation in the social sciences as a theoretical paradigm, the renewal that in Italy today enables us to talk, without rhetoric, of a 'new' economic geography would not have been possible. Rather than a manifestation of

actual reality—a concrete case of development or an organizational formula for production—the industrial district is a theoretical paradigm which allows us to focus on the place and re-connect technical-productive and social-cultural relations as inseparable components of economic behaviour; or in other words, as the sources of productiveness and innovativeness (Becattini, 2000).

Initially proposed as the unit of analysis of the industrial economy, the industrial district has thus helped to consolidate interpretation of the local system as an integrated production unit, highlighting that production is a geographically concentrated process, because its genesis occurs in a place, not simply in a firm.

This emphasis on the industrial district has produced a change of approach in both theoretical reflection and empirical study. As regards the latter in particular, this different approach to economic-social phenomena has sought to define a territorial classification grid, represented by local systems, which would enable empirical research that matched the theoretical construct of the district.

Crucial to this end has been the availability of census data with which to overcome the classificatory rigidity of traditional territorial grids (administrative or statistical)—which are entirely inadequate as well as misleading—and devise one suited to the analysis of geographical concentrations and productive specializations: that is, a grid comprising the main causes of the phenomenon to be studied.

Intense methodological and empirical research has led to identification of a now well-known classificatory grid: that of local systems (ISTAT, 1997). The use of the latter for the territorial analysis of economic change—including identification of industrial districts as concrete cases of local development—has yielded positive results, not only in socio-economic research but also as regards industrial and labour policies, and more generally the planning of local development (Sforzi, 1989; ISTAT, 1996; Ministero del Tesoro, 1999).

One may therefore say that the industrial district, framed by a neo-Marshallian reading of the organization of production and of local society, has engendered a knowledge circuit where theory and empirical research blend and evolve together, producing that change of perspective—frequently urged but never effectively accomplished—whereby it is today the territory which provides the key to interpretation of society and economy, with the local system as its unit of analysis. This theoretical framework of reference naturally provides the basis for the formulation and implementation of local policies which recast traditional economic, social and infrastructural ones as specialist policies aimed at the creation of the institutional and environmental conditions for the competitiveness of places.

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