REMAKING THE ITALIAN ECONOMY

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CORNELL UNIVERSITY PRESS

Ithaca and London

First published 1995 by Cornell University Press.

Printed in the United States of America

⊗The paper in this book meets the minimum requirements of the American National Standard for Information Sciences—Permanence of Paper for Printed Library Materials, ANSI Z39.48-1984.

Library of Congress Cataloging-in-Publication Data

Locke, Richard M., 1959–
Remaking the Italian economy / Richard M. Locke.
p. cm. — (Cornell studies in political economy)
Includes bibliographical references and index.
ISBN 0-8014-2891-2 (hc. : acid free paper)
1. Italy—Economic policy. 2. Italy—Economic conditions—1976– . 3. Industrial relations—Italy. 4. Competition, International. I. Title. II. Series.
HC305.L64 1995
338.954—dc20 94-38366

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A volume in the series

Cornell Studies in Political Economy

EDITED BY PETER J. KATZENSTEIN

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To Juliana, Nathaniel, and
the memory of Walker

Preface

This book analyzes recent efforts to remake the Italian economy. I became fascinated with Italy because of its many contradictions and anomalies. On the one hand, Italy is seen as the "sick man" of Europe, because it suffers from just about every conceivable problem afflicting the advanced industrial democracies: unstable government, terrorism, massive social protest, stagflation, and a variety of macroeconomic imbalances. On the other hand, even a cursory examination of the comparative data reveals that Italy performs well on key political-economic dimensions: GDP growth, personal savings rates, labor productivity, investment in new equipment. In fact, Italy appears to be performing as well as, at times even better than, its supposedly more "stable" and "efficient" neighbors. How can we reconcile these two apparently contradictory images of the same country?

But Italy is more than an empirical puzzle. It doesn't fit nicely within the traditional categories of comparative political economy. Much of the literature focuses on what I call "national models" to explain divergent patterns of industrial development, decline, and adjustment. This approach stresses how individual nations with divergent political histories and varying positions in world markets develop different institutional arrangements to govern their economies. More than a description of institutional differences, this approach often assumes that certain national systems with particular organizational features are more efficient or stable than others and either prescribes the active replication of these "best (institutional) practices" or assumes their inevitable diffusion across national boundaries.

During the 1970s and 1980s, for example, alternative institutional arrangements associated with particular national models were advanced as the most appropriate means to reverse industrial decline and promote economic adjustment. The suggested models included etatist France and Japan with their highly technocratic state bureaucracies providing "administrative guidance" to leading economic sectors and firms; northern European, neocorporatist systems of centralized interest intermediation, peak-level bargaining, and consensual politics; even the United States, with its staunch defense of free markets and individual entrepreneurialism.

In this book I examine how Italy, a country without a coherent national model, or at least none that fits neatly into any of these categories, restructured its economy in the 1980s. Not only was Italy able to adjust to changing world markets as well as (and perhaps better than) its liberal, statist, and neocorporatist neighbors, but this adjustment took place notwithstanding several failed efforts aimed precisely at remaking Italy in the image of other national models.

Italy's political and economic elites, like many American and European social scientists writing in the 1970s and 1980s, came to perceive their nation's problems as stemming from the absence of a strong and coherent national model. Through a series of institutional reforms aimed at replicating practices found in other, apparently more successful nations, they sought to reconstitute the Italian economy. With few exceptions, however, almost all these efforts failed. They failed for a variety of reasons, not least because of the difficulties inherent in importing institutional practices developed (and embedded) in another national context, but especially because they fell victim to political infighting among Italy's key socioeconomic actors. Despite these political struggles and failed reform efforts, the Italian economy underwent a dramatic restructuring that resulted both in patterns of entrepreneurial vitality and in cases of industrial decline. I seek to explain this paradoxical mixture by arguing that the Italian economy should be viewed not as a coherent national system but rather as an incoherent composite of diverse subnational patterns that coexist (often uneasily) within the same national territory.

Industrial decline and entrepreneurial vitality are both present in the Italian economy, but they are situated in different localities characterized by different patterns of associationalism, intergroup relations, political representation, and economic governance. In other words, the divergent patterns manifest within the Italian economy are produced by the different sociopolitical networks within which economic actors like firms and unions are embedded. Divergent sociopolitical networks create different mixes of resources and constraints that shape the strategic choices for local economic actors. These sociopolitical networks not only structure information flows and relations among local economic entities, but also provide local actors with different linkages or channels of representation to national interest groups and policymakers.

Thus, although Italian firms throughout the country faced similar challenges (i.e., increased international competition) and analogous public policies, they responded in a variety of ways. Both their understanding of the challenges they faced and their capacity to respond were shaped by the particular features of their context.

In telling this unconventional tale of Italy, I am advancing an alternative approach to the study of comparative political economy. In contrast to the dominant approach, which sees nation-states or national systems as the basic unit of analysis and seeks to explain cross-national variation in economic performance by focusing on particular institutional arrangements or patterns of state-society relations, my focus is on the microlevel, on the strategic choices of the economic actors themselves, in order to describe diverse patterns of industrial politics *within* the same nation-state. Moreover, rather than view economic behavior as the product of various structural factors (firm size, technological process, skill level), I stress the role of politics in shaping the conceptions and strategies of local economic actors.

This book makes three basic points. First, the absence of strong, centralized institutions and coherent national policies does not necessarily translate into a return to laissez-faire marketism. Beneath Italy's facade of institutional chaos lies a dense network of regulation and order. This regulation does not fit neatly into traditional categories. It does not emanate from a strong, central government, and it takes on different forms in different localities within the country. Nonetheless, these multiple, localistic patterns of industrial regulation shaped the reorganization of Italian industry in the 1980s.

Second, my story is not simply about Italy but concerns all advanced industrial states as they struggle to govern their economies in an increasingly international and interdependent world. Other national governments appear to be losing macroeconomic control over their economies, and today countries as diverse as Japan, Germany, Sweden, and the United States—national models Italians once sought to emulate—are beginning to resemble Italy in terms of institutional vulnerability and macroeconomic disorder. The Italian case may provide insight into the future evolution of state-economy relations in the advanced industrial states.

Third, the book elucidates the micropolitical determinants of industrial strategy and policy. It suggests that successful industrial strategies build on dense but egalitarian networks of associationalism, interest group organization, and local institutions which facilitate information-sharing and the pooling of scarce resources, mediate conflict, and generate trust among local economic actors. Firms and unions embedded in local economies characterized by such networks appear to adjust with greater facility to shifts in world markets than their counterparts in other regions with more limited or differently shaped sociopolitical infrastructures. This alternative understanding of industrial change has significant implications for future research and policy-making.

This book has taken longer to finish than I care to admit. Yet many people and institutions have helped me along the way. The book began at the Massachusetts Institute of Technology. My work was made easier by an ITT Fellow Doctoral Dissertation grant, a Social Science Research Council Dissertation grant, and an affiliation at the Center for European Studies at Harvard University. I began teaching at MIT in the spring of 1989. While I have been there, I have benefited greatly from extensive comments, prodding, and encouragement from Lucio Baccaro, Donald Blackmer, Zairo Cheibub, Joshua Cohen, Steve Eppinger, Rebecca Henderson, Ellen Immergut, Donald Lessard, Anthony Levitas, Jonah Levy, Steven Lewis, Lisa Lynch, Robert McKersie, Uday Mehta, Wanda Orlinkowski, Paul Osterman, Simona Piattoni, Charles Sabel, Richard Samuels, Serenella Sferza, Marcie Tyre, Karl Ulrich, Eleanor Westney, and Nicholas Ziegler. I also thank Karen Boyajian, Florin Toader, and Susan Wright for their help with manuscript preparation.

Many other friends and colleagues on both sides of the Atlantic have provided research advice and comments on earlier drafts. I thank Aris Accornero, Mario Agostinelli, Bianca Beccalli, Giuseppe Berta, Arnaldo Camuffo, Gian Piero Carpo, Arnold Cohen, Abby Collins,

Marco Giuliani, Peter Hall, Roger Haydon, Chris Howell, Harry Katz, Peter Katzenstein, Horst Kern, Peter Lange, Carol Mershon, Robert Putnam, Pippo Ranci, Marino Regini, Michele Salvati, David Soskice, Kathleen Thelen, Lowell Turner, and the late Maurizio Vannicelli.

I owe a particular debt to a group of friends who continued to listen and talk through ideas when everyone else tired and who patiently provided support during those moments when I feared that I had gotten it all wrong and that the book would never be finished. Thanks again to Suzanne Berger, Victoria Hattam, Gary Herrigel, Thomas Kochan, Michael Piore, Gloria Regonini, and Ano Saxenian.

Finally, I thank my mother, Franca Franzaroli, and brother, Leo, for their support; my wife, Jessica, for her patience and encouragement; and my children for teaching me the most important lessons in life. I dedicate this book to them.

RICHARD LOCKE

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Remaking the Italian Economy

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Chapter One

Introduction: Making Sense of Italy

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

Italy has historically appeared to be a nation with a "weak state" or, at least, without a concerted political will capable of regulating the economy. Its government is "weak" and "unstable," civil service "incompetent," and political party system "polarized." Adjectives like "backward," "corrupt," and "clientalistic" are regularly used (by foreign and native observers alike) to describe various features of Italy's political economy.[1]

Recent events have reinforced this negative image. Since February 1992, for example, an ever widening scandal over bribes paid by businesspeople to politicians in return for public works contracts has shaken Italy. The estimated amounts involved are between 10 and 20 billion U.S. dollars. One fourth of the 630-member Parliament has been implicated in the corruption scandal, as have several former

[1]See, for example, Banfield 1967; Cella 1989: 167–86; Chubb and Vannicelli 1988: 122–60; Graziano 1978: 290–326; Tullio-Altan 1976; and Sartori 1966: 137–76.

government ministers and the heads of most major political parties.[2] Irresponsible public spending and archaic fiscal policies have also resulted in an enormous government debt (exceeding 104 percent Gross Domestic Product [GDP]) which, in turn, contributed to the lira's collapse on international markets and its withdrawal from the European Exchange Rate Mechanism in the autumn of 1992.[3] Finally, open attacks on the state's authority by the Mafia and other organized crime syndicates, especially in the South, and the electoral defeat of the traditional governing political parties (e.g., Christian Democrats and Socialists) by new, regional parties (e.g., Lega Nord[4]) have together reinforced the image of Italy as weak and unstable.

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

[2] For more on this scandal, see Kramer 1992: 108–24; "The Tangle in Italy," *Economist*, February 20, 1992: 3–4; and articles by Alan Cowell in the *New York Times* (April 11, 19, 21, 1993). For more on the pervasiveness of political corruption in Italy, see Cazzola 1992; and della Porta 1992.

[3] For more on Italy's growing debt, see Della Sala 1988: 110–25. For an interesting analysis of the fall 1992 currency crisis, see Kevin Muehring et al., "Currency Chaos: The Inside Story," *International Investor*, October 1992.

[4] For more on the Lega, see Mannheimer 1991; and Woods 1992: 56–76.

[5] In the late 1980s, Italy's national champion in automobiles, Fiat, ranked second only to Volkswagen in number of autos produced in Europe. Since then, Fiat, along with other leading European automobile manufacturers (e.g., Volvo, Volkswagen), has experienced challenges to its competitiveness. Nonetheless in 1992, Fiat remained the sixth largest automobile manufacturer in the world. (See *Automotive News*, May 26, 1993: 3.) Italian producers hold about 10 percent world market share in textiles and apparel (see *International Trade and Statistics Yearbook*, 1991); 27 percent world market share (52 percent European market share) in ceramic tiles (see *Il Sole 24 Ore*, May 31, 1993: 3);

This book seeks to explain the apparent paradox behind these two contrasting images of Italy while at the same time advancing an alternative approach to the study of comparative political economy. In contrast to the dominant approach that sees nation-states or national systems as the basic unit of analysis and seeks to explain cross-national variation in economic performance by focusing on particular institutional arrangements or patterns of state-society relations, my alternative micropolitical analysis emphasizes the internal heterogeneity of national economies and the "embeddedness" of economic activity in local sociopolitical networks. In this alternative view, national political economies are not coherent systems but rather incoherent composites of diverse subnational patterns that coexist (often uneasily) within the same national territory.[6]

The micropolitical approach explains how within the same national economy one can identify *both* entrepreneurial dynamism *and* industrial decline. Although present within the same country, these divergent patterns are situated in very different local economies that are, in turn, characterized by alternative patterns of associationalism, intergroup relations, political representation, and economic governance. In Italy, firms and industries situated in localities with particular sociopolitical attributes (e.g., dense networks of well-developed associations and interest groups capable of aggregating diverse interests, mediating industrial conflict, and diffusing information) adjusted more successfully[7] to changing world markets than did other companies embedded in areas with different historical legacies and more limited local resources.

Viewing the Italian economy as a complex composite of diverse local systems helps us not only to reintegrate the two contrasting images of Italy, but also to understand some of the country's difficulties. Because the massive wave of industrial restructuring that swept across the Italian economy in the 1980s had such divergent conse-

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over 11 percent world market share in machine tools (fourth largest producer, after Japan, Germany, and the United States; see *American Machinist*, February 1993: 33–77); and about 25 percent of the European market for specialty steels (number two spot, after Germany; see Balconi 1991: 473).

[6]This point was raised initially in a series of conversations with Gary Herrigel and is elaborated in his own work on Germany. See Herrigel 1995.

[7]In this book I embrace Peter Katzenstein's definition of "successful adjustment," which includes political as well as economic outcomes. See Katzenstein 1985: 29.

quences for the country's various subnational economies, socioeconomic disparities within Italian society increased in the late 1980s and early 1990s. For example, differences in income, employment, and the quality of social services between the developed North and the less developed South (and even among various regions of the South)—differences that appeared to be narrowing in the 1970s—actually increased in the 1980s.[8] Through various government-funded programs, the Italian state sought to compensate for these growing socioeconomic disparities and hold together the country's divergent subnational economic orders. Yet the costs of these programs have strained the Italian political economy and provoked a major fiscal/macroeconomic crisis and a wave of political mobilization by the Lega Nord aimed at dismembering the Italian state into a loose confederation of macropolitical regions.[9] By creating a more costly and uncertain business environment, these macroeconomic and political crises may threaten to undermine even the more successful Italian regional economies.

To the extent that other national governments also appear to have lost macroeconomic control over their economies,[10] and given that today countries as diverse as Sweden, Germany, and the United States—national systems Italians once sought to emulate—are beginning to resemble Italy in terms of institutional fragmentation and economic decentralization, the Italian case may provide more general lessons for students of comparative political economy.

The remainder of this chapter develops this argument about the way different local sociopolitical networks shape the strategic choices of economic actors in divergent ways. It is divided into three sections.

[8]For more on these trends, see CENSIS 1992. For more on differences within the South, see Piattoni, Diss. in progress.

[9]The Lega's proposal for a reconfiguration of the Italian state into a looser federation of regions is remarkably similar to what certain *Meridionalisti* (southern scholar-activists) at the turn of the last century advocated as well. These earlier federalists argued that increased local and regional autonomy was essential for the economic and civic development of the Italian South. For more on this, see Trigilia 1992. For more on the recurrent debates within Italian history over the degree of centralization vs. local autonomy in Italy, see various essays in De Rosa and Di Nolfo 1986.

Should the Lega actually achieve its goal and divide Italy into three macroregions, it may find itself facing many of the same problems currently confronting the present Italian government, given that the North is an extremely heterogenous area with divergent political histories and socioeconomic structures. For more on this, see Rusconi 1993.

[10]For a provocative essay on this issue, see Cassese 1992.