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**From 'territory' to 'city':
the conceptualisation of space in Italy
since 1950**

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Abstract

The paper argues that the way in which social scientists and policy-makers have conceptualised the Italian territory has significantly changed since the 1950s as a consequence of methodological shifts and attempts to capture the changing territorial organisation of the economy brought about by the structural transformation of the production and consumption process. In retrospect, one can in fact discern a conceptual trajectory from the standard 'Northern Italy'/'Southern Italy' partition, which prevailed until the 1970s, to an interpretation of the Italian territory *as a pattern of local systems which slowly emerged in the subsequent decades*.

The paper suggests that the concept of 'local system', if correctly interpreted, may finally lead to rediscover cities as the fundamental elements of the territorial organisation of the economic process in Italy. However difficult economists may find to insert 'the city' in the categorical and theoretical framework of economics, it seems necessary to assign to the features of urban organisation of the Italian society the economic importance they indeed have.

By moving from a modern interpretation of the concept of city – for instance by giving adequate consideration to the fact that in Western economies practically all cities are 'dispersed cities' and functional rather than administrative borders are relevant – one can reach the conclusion that most local systems *are in fact cities*. This way of looking at the Italian territory has important consequences. For instance, it reinstates urban external economies and dis-economies in the position they deserve in determining the development trajectory of the Italian economy. This perspective, moreover, re-assigns to the main Italian urban systems the economic role that they have indeed played in recent decades with regard to the innovation and accumulation processes, and highlights the key position that large cities have in reacting to the external shocks that accompany the changing international division of labour. Moreover, if the economic importance of cities is not acknowledged, it is questionable whether effective regional and national development policies can be devised.

The critical-historical analysis of the conceptualisation of the Italian territory since the 1950s conducted in this paper, highlighting the conceptual barriers which have impeded appreciation of the role of cities, may prove functional to a paradigmatic shift which puts cities at the centre of the stage – a shift which is also in line with the new orientation toward cities one finds in the EU territorial policies.

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1 Introduction*

In Italy since 1950 national economic development has been accompanied by striking differences in territorial performances. Against the background of Italian society's profound awareness of territorial disparities, the factors explaining these differences have been extensively researched and, by implication, also too have been ways to differentiate the national territory. How to conceptualise the territory has been a complex question in Italy both because of the variety of the scientific research programmes seeking to explain territorial performances and because of the extent – probably unparalleled in Europe – to which the economic landscape has changed in the past five decades.

The paper will argue that the way in which social scientists and policy-makers have conceptualised the Italian territory has significantly changed since the 1950s as a consequence of methodological shifts and attempts to capture the rapidly changing evolution of the territorial organisation of the economy. Retrospectively, one can discern a conceptual trajectory from the classic 'Northern Italy'/'Southern Italy' partition to interpretation of the territory as a pattern of local systems. But the paper suggests that the concept of 'local system', if correctly interpreted, may finally lead to the rediscovery of cities as the fundamental elements of the territorial organisation of the economic process in Italy. In fact, the concept of local system has introduced a methodological perspective that views cities as the fundamental nodes of the Italian economic landscape – however difficult acknowledging this fact still appears.

If the economic importance of cities is not acknowledged, it is difficult to understand the pattern of regional development in Italy in recent decades. It is also questionable whether effective regional and national development policies can be devised. A critical-historical analysis of the conceptualisation of the Italian territory since the 1950s, highlighting the conceptual barriers which have impeded appreciation of the role of cities, may prove functional to theoretical and policy advances in the field of local economic development.

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2 A conceptual legacy: North Italy vs. South Italy

For about a century, and until recently, the standard regional conceptualisation of the Italian territory was based on the 'Northern Italy'/'Southern Italy' dichotomy. Although other regional conceptualisations of the national territory were forcefully advocated as more appropriate in the decades from the formation of the nation state until the 1950s¹, the North/South partition came to dominate public discussion and was also the conception that economists and policy-makers deemed most appropriate for analytical and policy purposes.

This conceptualisation of the Italian territory was fully reflected in public policies, but it was also created by them. The need to re-equilibrate the regional distribution of economic activities was one of the most closely discussed issues after the formation of the Italian national state (1861), and it became a matter of urgency in the 1950s. Once the 'Cassa per il Mezzogiorno' – probably the most ambitious regional development plan devised and implemented by a nation state in Europe – had been established, the North/South interpretation of the Italian territory came to be seen *as a matter of fact*.

Until recently, the scientific and policy discourse conceptualised Southern Italy as a 'single spatial unit' (a 'region'), without its territory being further differentiated. Southern Italy in its entirety was classified as a 'backward region'. The same methodological perspective was adopted to interpret the territory of Northern Italy, which was also seen as homogenous in terms of territorial performances. This led to the dichotomised interpretation of the Italian territory which was widely embraced by public and scientific discourse for many years and still persists.²

In economics, territory is differentiated at two different but closely interconnected levels: (a) economic performances; (b) territorially specific variables which account for economic performances. What is scientifically relevant is determining the territorial factors which a given research programme considers in principle to be the 'causal factors' of territorial performances. The ontological specificity of a territory, therefore, derives from factors specific to that territory and which, according to the theory, are determinants of its economic performance. Differences among economic performances are manifestation of differences lying at a 'deeper' level of description of the region.

¹ For instance, the partition between mountain and non-mountain territories (of obvious importance in a country with a geography like Italy's).

² These territorial partition were internally differentiated in the context of EU policies of 'structural funds'. However, this differentiation has never been particularly relevant to explanation of territorial performances.

Southern Italy was thought to be different from Northern Italy in many ways concerning social and economic interactions. The standard issue of differences in levels of capital accumulation – private and collective physical capital, but also human capital – was given the importance that the theory said it is warranted. Yet when the ‘Mezzogiorno question’ became a ‘national question’, the two regions – the ‘North’ and the ‘South’ – were differentiated in the economic discourse in light of a complex set of factors, many of which were non-economic ones according to the standard classification. In particular, the economic discourse on Southern Italy considered *institutional features* (formal and informal institutions) and *anthropological features* (individuals’ dispositions) to be fundamental factors in regional differentiation (Cafiero, 1996).

Development economics, this being the scientific paradigm behind much reflection on the economic backwardness of Southern Italy, pointed to institutional and anthropological features as *explanans* of economic performances – in addition to the level of capital accumulation and other factors (Hirschman, 1961; Myrdal, 1971; North, 1981, 1990). The inclusion of institutional and anthropological factors as explanatory variables in models of economic development was a methodological shift which changed the explanatory framework at two different levels. On the one hand, it changed the set of factors which in principle may have a causal effect on economic development. On the other, it changed the units of analysis, that is, the spatial-relational system to which reference is made. Institutions and individuals’ dispositions differ from place to place. They form a territorial pattern, with the consequence that territory is by definition not homogenous in terms of these two factors. It follows that national territories were ‘regionalised’ by a criterion *different from standard ones* – namely ‘distance’ (and capital endowment if one introduces imperfect mobility of factors) – which became part of the conceptual framework used when addressing the Southern question.

Appropriate consideration of the institutional and anthropological dimension of territory was not the only methodological insight that development economics furnished to the economic discourse on the of Southern Italy’s backwardness. A further key methodological innovation was the importance assigned to externalities (and linkages) – and consequently to ‘spatial proximity’. The issue of the absence/creation of external economies has played such a key role in the debate on the relative backwardness of the Mezzogiorno that it is hardly necessary to make specific reference to it here. Besides the hypothesis of imperfect mobility of production factors, the role assigned to externalities – and to the spatial distribution of externalities – has profoundly characterised interpretation of the performances of Southern Italy.

It is worth noting that the focus on external economies introduced a fundamental tension in theoretical reflection which gave rise to numerous

subsequent methodological and theoretical innovations. In particular, it raised the issue of the diffusion/concentration in space of externalities and of the economic significance and role of 'agglomerations'. The focus on the importance of agglomerations for regional development would later become an essential component of 'local development economics' (infra, section 4). In the context of the debate on the 'Southern question' external economies were the foregrounding not only of so-called 'poles of industrialisation' but also of 'cities' conceived as 'concentrations of externalities'. Indeed, the 'urban question' emerged as a key issue in the scientific discourse on the backwardness of Southern Italy in Cafiero (1976) which highlighted the contribution that cities (as generators of externalities and complementarities) could make to the industrialisation of the Mezzogiorno (cf. SVIMEZ, 1987, pp. 160-184).

For various reasons – one of which was certainly the fact that this was a field of study at the intersection of diverse disciplinary perspectives – the theoretical frameworks put forward to interpret Southern Italy's territorial performances were highly innovative when judged retrospectively. They indubitably influenced the subsequent theoretical evolution of local development economics.

3 Beyond the North/South dichotomy

The Northern Italy/Southern Italy dichotomy became scientifically untenable in the late 1970s. Italian social scientists began to point out that it was no longer possible to explain the pattern of territorial performances or to describe the new economic landscape (Bagnasco, 1979; Fuà and Zacchia, 1983) by relying on this dichotomised representation of the Italian territory. The Northern Italy/Southern Italy opposition increasingly appeared to be a conceptual legacy which hampered understanding of regional performances and persisting disparities, and also of the new modes of capital accumulation which seemingly prevailed in some 'regions' of the country.

It was proposed that the Italian space could be more appropriately conceptualised using *new regional partitions* encompassing smaller areas of the Italian territory. 'The Third Italy' (Bagnasco, 1977) and the so-called 'Nec territory' (Fuà, 1983) – comprising Central Italy and Northeastern Italy – were perhaps the two conceptualisations that gained the widest currency. Introducing this category suggested a new map of the Italian territory which amounted to a profound theoretical change with strong policy implications.

This new 'region' – be it 'The Third Italy' or "The Nec territories" – was thought to be homogenous primarily in terms of institutional and

anthropological features, both of which were the product of path-dependent historical trajectories. At these levels of description this region was considered different from Southern and North-western Italy, so that its different economic performances could be linked to institutional and anthropological specificities. This new partition seemed to open the way to better understanding of regional performances.³

As previously pointed out, institutions and individuals' dispositions had already been proposed as explanatory variables in the study of the economic performances of Southern Italy (and by contrast Northern Italy). But in the research programme launched in the 1970s by economic sociology and institutional economics analysis of the regional dimension of institutions and individuals' dispositions were spatially and conceptually more differentiated (Bagnasco, 1977, 1988; Fuà, 1983).

For all its methodological importance, however, the shift to these new regional partitions of the Italian territory was deeply unsatisfactory *from an economic perspective*, and it was also inadequate for policy purposes. It left unanswered the fundamental scientific question of why there were marked differences in economic performances *within the same region*. The regional partitions of the Italian territory were assumed to be internally homogeneous in terms of the discriminating factors selected (institutional and anthropological features), but they were self-evidently strongly *dis-homogenous* with regard to long-run economic performances.

The so-called 'Third Italy' and 'Nec territory' – description of whose overall economic performances received wide attention – comprised broad territories that had dramatically declined since the 1950s. Suffice it to consider the development trajectories of the urban settlements in the Apennines of Central Italy to gain an idea of the magnitude of the disparities among economic performances observable in Central Italy, whose generally good or very good economic performance attracted so much attention.

The same pattern of *local* economic growth and *local* economic decline within the same region was observed in 'North-eastern Italy' and 'North-western Italy'. Rapidly declining territories could be found in Piemonte, Liguria, Lombardia and Friuli Venezia Giulia. Southern Italy, too, began to appear a highly differentiated territory in terms of local economic performances. These findings cast doubt on the economic relevance of the

³ It also seemed to initiate a new approach to regional development policies by stressing the possibility of the artificial creation of formal institutions and the artificial inducement of informal institutions sustaining regional development.

regional partition of the Italian territory proposed by various analysts in the late 1970s and early 1980s.⁴

The fact that the Italian territory was more markedly differentiated in terms of economic performances stimulated a search for factors explaining territorial development other than institutions and personal dispositions. In fact, basing explanation of these differences in local systems' performances on institutional and anthropological factors seemed to be ruled out by analysis of the social structure of the Italian regions. A further differentiation in terms of these two classes of variables (institutions and personal dispositions) was a research strategy to which we were not given much consideration. The hypothesis that the Italian territory should be differentiated in terms of informal institutions at a lower level than that of the regional partition above mentioned – 'Third Italy', 'Southern Italy', ... – has indeed never been widely supported. There was no alternative but to search for different *types* of factors.⁵

This theoretical and policy impasse generated by the inability to conceptualise the Italian territory in a way coherent with the pattern of territorial performances was overcome by rediscovering the significance of 'proximity', and by pointing to the empirical phenomenon of 'agglomerations'. A number of new categories were introduced to account for the specificity of human agglomerations: 'industrial districts' (Becattini, 1979, 1987, 1989a, 1989b, 2004), 'local production systems' (Garofoli, 1993), 'innovative milieus' (Camagni, 1991), 'territorial systems' (Ciciotti, 1993), 'urban systems'

⁴ This failure to account for differentiated economic performances should not be regarded as a shortcoming of the research programme which, in the late 1970s, produced a new regional map of Italy. Indeed, its aim was not to put forward a theory of regional economic development but rather to attain a better theoretical specification – and empirical corroboration – of the role of institutional and anthropological factors as causal factors of regional economic development. It stressed that models of regional development ought to give adequate theoretical and empirical consideration to the features of the social structure. It also pointed out that the Italian space was institutionally and anthropologically more differentiated than hitherto assumed by studies on the determinants of regional development.

⁵ The search for a map showing a greater differentiation of the Italian territory than that proposed in the late 1970s was apparently facilitated by the introduction of 'administrative regions' (formally instituted in the early 1970s). Indeed, the map of administrative regions became a point of reference in the discussion on regional performances. The availability of official data for these territorial partitions, the legitimisation given to administrative regions by the European policy-making process, and the overlapping, understandably much welcomed, between level of analysis and level of regulation gave the map of administrative regions a special role. Yet from the outset it was found to be rather unsatisfactory. On the one hand, administrative regions were internally strongly differentiated in terms of economic performances; on the other, they were not distinct social entities in terms of institutional and anthropological features. A differentiation of Italian 'administrative regions' – and also of the lower administrative partition, that of the 'provinces' – would again be attempted in subsequent decades by using the concept of 'social capital' (however defined).

(Martellato and Sforzi, 1990). Scholars began to focus on *specific* spatial agglomerations, separating and distinguishing them from the territory in which they were embedded. These agglomerations shared the same institutional and anthropological features with the territory from which they were enucleated, but they 'worked' according to a logic which was specific to each of them. All these types of agglomerations – for which it seems appropriate, as argued in the next section, to use the term 'local systems' – were referred to as 'spatially bounded relational densities' characterised by a distinctive self-organising capacity.

This shift of the focus of regional analysis towards 'agglomerations' was made practically simultaneously and independently in diverse research programmes. Interestingly, these research programmes retained many of the theoretical innovations introduced in the previous three decades in Italy by research on territorial performances. They restated the role of (a) institutions and (b) anthropological factors highlighted by the scientific discourse on Southern Italy's backwardness, and later on in the literature on the rapid industrialisation of Central and North-eastern Italy. But they also confirmed and extended the role of 'agglomeration economies' extensively discussed in the debate on the 'Mezzogiorno Question' too.

4 Discovering local systems

An important advance in the conceptualisation of the Italian territory in terms of agglomerations was achieved by Martellato and Sforzi (1990). On the basis of the concept of 'functional urban area' a number of important urban systems were identified – and a *comparative analysis* was proposed and conducted (see Costa, Martellato and van der Borg, 1990). Against the background of the tradition of urban studies, the concept of city – and its economic nature (as a generator of externalities) – was taken for granted (see Geddes, 1915; Jacobs, 1970, 1985). Whereas the issue of how to identify urban systems in the Italian economic landscape was given a primary importance. A procedure was suggested, a number of urban systems identified and a (preliminary) comparative analysis was conducted to find regularities in their development trajectories.

This research programme was not extensively developed, notwithstanding the fact that the concept of 'urban system' had correctly identified the most important units for analysis of the Italian territory in terms of generation of employment and income. Certainly, the procedure used in this research programme to identify the relevant agglomerations ('urban systems') – namely

to equate them with 'local labour systems' – was largely unwarranted.⁶ Yet the questions addressed by this research programme – (a) how to identify the most important agglomerations; (b) how to conduct comparative analysis of their development trajectories – were coherent with the problem of exploring the pattern of territorial performances in Italy.

This research programme's procedure of taking large 'urban systems' as objects of analysis with regard to regional and national economic development was tantamount to focusing on urban externalities as key elements in explaining long-term territorial performances. A preliminary model of urban systems' structures was put forward in explanation of differences in performances. As often happens in comparative analysis, a relationship between 'structures' (of cities) and performances (of cities) was empirically sought. Its main theoretical shortcoming, however, was that the *structure of urban systems* was conceptualised in a way that was unsatisfactory against the background of the new approach to territorial analysis that had emerged in the previous decades. This conceptualisation was 'overly simple' in that it ignored many of the features proposed as causal factors of local development. Neither institutional nor anthropological factors were considered by descriptions of the structure of urban systems.

In those same years, two other research programmes proposing 'agglomerations' as units for analysis of Italian territorial performances were being developed: they can respectively be labelled as 'neo-Marshallian industrial economics' (Becattini, 1987, 1989a, 1989b, 2004; Garofoli, 1992) 'evolutionary regional economics' (Camagni, 1991, 1992; Ciciotti, 1993). Both of them would attract much attention in the subsequent decade. Decisively, they started not from the meso-level by addressing directly specific bounded territories, however defined, but rather from the micro-level, focusing on '*multi-agent relationships in space*'. Instead of focusing on the aggregate performances of local systems through a comparative analysis, these research programmes began to elaborate micro-founded meta-models for the explanation of local systems' static and dynamic efficiency.

As it is known neo-Marshallian industrial economics proposed 'industrial districts' (Becattini 1987, 1989a, 1989b, 2004) or 'local production systems' (Garofoli, 1989, 1993) as the objects of analysis. By formulating the concepts of 'industrial district' and 'local production system' as 'spatially bounded relational densities' this research programme directly investigated the

⁶ It is true that the procedure was proposed as 'an approximation' (Martellato and Sforzi, 1990). Yet in subsequent years it became an orthodoxy which greatly hampered the development of alternative and more correct procedures with which to identify local systems (Calafati, 2002, 2005), and hence urban systems or cities.

relationships among agents and external economies – and their effects at the micro-level (of both firms and individuals).

It is hardly necessary to recall here that the spatially bounded relational density (local system) subject to analysis was *de facto* a 'local society': that is, the intersection between a social network and a business firms' network. This follows by definition from the concept of 'urban system', but it also follows, as explicitly stated by its proponents, from the concept of 'industrial district'.⁷

In this research programme a spatial agglomeration was a 'concentration in space of external economies'. Yet the institutional and anthropological features of the territory were also relevant because the industrial network was seen as embedded in the corresponding social network – which, in turn, reflected the specific institutional and anthropological features of the territory to which the agglomerations belonged. Consequently, two agglomerations located, for instance, in the 'Nec territory' had similar structures in terms of institutional and anthropological features but different in terms of the amount and type of externalities (and, possibly, capital). In turn, the configuration of externalities correlated with a given agglomeration depended on a variety of factors: the scale of the system, technologies, the property rights regime, and other informal constraints.

Unfortunately, neo-Marshallian industrial economics neglected to examine the general significance of the concepts of 'industrial district' and 'local production system' beyond the concrete cases of local development examined.⁸ This research programme focused mainly on specific (and 'unexpected') trajectories of local industrialisation – in particular, on cases manifest in the 'periphery' of the Italian economy. It failed in proposing the methodology developed to address the evolution of local systems certainly more important than industrial districts.

Evolutionary regional economics, too, decisively shifted to agglomerations in space as units for description of the social process. A number of categories were introduced, of which those of 'innovative milieu' (Camagni, 1991) and 'territorial system' (Ciciotti, 1993) were the most widely used. Correctly understood, 'innovative milieus' and 'territorial systems' were again *spatially bounded relational densities* – that is, types of 'local systems'.

⁷ The relationship between these two localised networks – of business firms and individuals – has given rise to some confusion. In neo-Marshallian industrial economics – and in evolutionary regional economics as well – the terms 'industrial district' and 'innovative milieu' refer to relational densities made up of the intersection of the two networks, between which there is a (circular) causal relationship.

⁸ Among the few studies on the methodological implications of the concept of local systems see Crivellini e Pettenati (1989), Dematteis (1994), Calafati (2002), Conti e Giaccaria (2002).

This research programme distinguished itself from the previous one by adopting a more encompassing notion of externalities. More closely in keeping with the tradition of urban studies, externalities were viewed as phenomena which extended beyond the 'external economies' of the Marshallian tradition. (Not coincidentally, negative – mainly environmental – externalities have recently become the object of analysis by this research programme (Camagni et al., 2002).) Apart from the fact that agglomerations also generate negative (not only positive) externalities – and differ accordingly – evolutionary regional economics placed particular emphasis on the dynamic implications of externalities – and also of the externalities generated by social interaction at large, not just those produced by business firms. Indeed, social learning (or 'collective learning' as it is often termed) very often springs from interactions among individuals.

While less concerned to emphasise the institutional dimension of agglomerations, evolutionary regional economics gave much importance to the issue of governance – stressing the limited capacity for self-organisation of local systems and underlining the role of policies in shaping local development trajectories.

The implications for the logical relationship between the concepts of 'innovative milieu' (or 'territorial system') and that of 'local system' have only recently been explored in evolutionary regional economics. It is interesting to note, however, that the concept of city has received close attention (see Ciciotti, 1993, chapter 3; Camagni, 1999). Nevertheless, cities have not been proposed as the spatial agglomerations on the basis of which to explore the economic performances of the Italian territory, and no empirical analysis of their trajectories has been conducted in this research programme. Consequently, neither has this research programme produced a balanced interpretation of the regional performances of the Italian territory.

A fundamental feature of the notion of 'local system' – industrial district, innovative milieu, territorial system – as it is used in the literature is that it is viewed as a self-organising unit: a 'structure' with a specific working logic and a specific pattern of evolution. Self-eco-organisation, however, is a property of the spatially bounded relational density taken as a whole – that of the local system – and not of its subsystems. Just as a city was a complex system irreducible to its parts for the tradition of urban studies, so now are 'industrial districts' and 'innovative milieus'. Differences in the initial conditions of the systems coupled with the different evolutionary mechanisms embedded in their structures give rise to strikingly different economic performances in the long

run – given the dynamic of the environment of the system.⁹ Because local systems achieve different performances, they must be different in their institutional and anthropological dimensions. Agglomeration X may be embedded in the same institutional field and have the same anthropological features as agglomeration Y in so far as they both belong to a territory (the ‘Third Italy’, for example) that is homogenous in terms of these two variables. They may also have the same amount of (per capita) capital. Yet in principle they are different systems – with different economic performances – because they differ at a level of description other than those just mentioned. For instance, they may differ in (a) scale, (b) structure-environment compatibility, or (c) governance mechanisms.

5 The structure of local systems: externalities, institutions and agents

Externalities – positive and negative – are ‘local’ phenomena: that is, they stem from a firm or an individual whose economic process is by definition located *at a given point of territory*. From that point in space (territory) externalities propagate *with decreasing impacts*. The spatial/territorial dimension of externalities may have been omitted from the abstract treatment given to them by neo-classical economics (see Mishan, 1971), but it was clearly acknowledged by other approaches to the phenomenon (Pigou, 1932; Coase, 1960).

Externalities have a limited spatial range within which they remain ‘active’, that is, within which they produce economic effects. It follows that externalities and proximity must be treated as two interlinked phenomena in economics, and that a local system can be described not only as a spatial concentration of individuals (and organisations) but also as a ‘spatial concentration of externalities’. Hence agglomerations generate both a specific configuration of transport costs but also a specific configuration of externalities. Each spatial agglomeration of individuals and/or organisations – a nomadic camp, a neighbourhood, a village or a city – has its own configuration of (positive and negative) externalities.

It is worth stressing that both neo-Marshallian industrial economics and evolutionary regional economics assume (contrary to the standard interpretation) that externalities affect the dynamic efficiency of the agglomeration in which they manifest themselves, and not only its static

⁹ From this perspective it is not difficult to see the extent to which the ‘conceptual trajectory’ of the regional conceptualisation of the Italian territory has led to an overlapping with institutional economics, especially as it is expressed in the work of scholars like Hirschman (1961) and North (1990).

efficiency. Externalities (and linkages) drive the local system's structural change by inducing learning, innovation, and 'territorial loyalty' (that is, locally oriented investment).¹⁰ Externalities also affect cost functions, thus influencing profit and potential investment. Treatment of externalities as phenomena of crucial importance has radically changed the theoretical framework in which human agglomerations' development trajectories are studied.

Evolutionary regional economics and neo-Marshallian industrial economics describe human agglomerations at two further levels of description besides externalities. As I have already noted, by building on previous research results, they assign a key role to the institutional and anthropological features of the agglomeration under scrutiny. The relevance of these features manifests itself through two causal chains. Firstly, institutions and people's dispositions directly influence the static and dynamic efficiency of an agglomeration because they affect the propensity to invest, transaction costs, learning, profits, and so on. Secondly, and this may be regarded as a theoretical breakthrough, institutions such as people's dispositions have a bearing on the effectiveness of externalities – or, more technically, on the way in which external effects transform themselves into externalities.

The study of the *effects of externalities* has been framed in terms of the institutional setting and the disposition of local society, thus reprising one of the fundamental tenets of the institutionalist tradition (Hodgson, 1988, Hamilton, 1999). This is the straightforward consequence of basing the explanation on a model of man and organisation rooted in the paradigms of procedural rationality and transaction costs – as North (1990) and Simon (1976, 1978) have shown. Since external economies must be perceived, valued, appropriated, compensated it follows that the interplay between institutions and the personal dispositions of the local system's members is crucial for externalities to acquire an economic meaning.¹¹ The role that externalities perform in a given local system depends on the societal features of the local system itself.

Making these three levels of description of a human agglomeration – (a) *the configuration of externalities*; (b) *the institutional setting*; (c) *human dispositions* – intersect in the study of the static and dynamic properties of local systems can

¹⁰ Since Hirschman (1961, chapter. 6) introduced the concept of 'forward and backward linkage's, the dynamic relevance of externalities has been extensively researched. The research programme of 'innovative milieu' in particular has devoted much attention to the dynamic role of externalities (cf. Camagni 1991; Camagni and Capello 2002).

¹¹ For instance, external economies must be perceived in order to exist as economic phenomena, but their perception depends on the communication channels, knowledge and values of the agents involved. External effects transform themselves into 'externalities' in the context of a specific property rights system, as suggested in Coase (1960).

be regarded as the most important methodological breakthrough achieved by local development economics. On the one hand, expanding the description of the local system to encompass institutional and anthropological factors has made it possible to incorporate a new set of variables directly affecting innovation and investment into the explanatory model. On the other hand, it has also made it possible to take a radically new approach to the study of the static and dynamic effects of externalities.

These two research programmes have certainly made 'economics more complex' – as advocated by Hirschman (1984) – in the sense that models of the 'structure' of agglomerations must comprise several interdependent levels of description. Whilst the amount and type of capital are the first level of description – as suggested by growth theory – consideration of people's features in terms of their dispositions is certainly the second key question to address. Because external economies are phenomenon of such importance for human agglomerations, the institutional setting (formal and informal institutions) becomes an essential component of descriptions made of local systems. Finally, regulatory mechanisms must also be given their due role, given that they influence a system's evolution, in particular by changing the institutional setting.¹²

6 From local systems to cities

Imagine that we are about to survey the Italian territory using the concept of 'local system'; or in other words, we are about to search for 'spatially bounded relational densities' which have recently displayed a significant self-eco-organising capacity rooted in their structural features. Would we select 'human agglomerations' which are not 'cities' – that is, those which the categorical system of all the social sciences, with the possible exception of economics, would not call 'cities'? In this section I will argue that what in Italy we have come to call 'local systems' are in most cases nothing other than city – they are human agglomerations that, according to the modern concept of city, should be interpreted in very often as cities s. Failure to recognise this

¹² There are two more levels of description which have been underrated but that are by logical implication crucial in this paradigm. Firstly, the features of the organisations on which the economic process is based – and, also, of their role in terms of power to influence the dynamic of the system: the vertical structure of the local economy. Secondly, the description of the 'environment' of the local system. The concept of self-eco-organisation (Morin, 1990) appropriately captures the fact that an agglomeration, being an open system, 'deals with' an environment – an environment which is specific.

fundamental point has given rise to a deeply unbalanced interpretation of territorial performances and to a very questionable policy framework.

That cities in Italy – as in any other capitalist society – are the most important type of human agglomeration seems so obvious a statement that one can only explain why cities have had such a hard time of it in economics and economic policy by citing the influence of a powerful ‘negative heuristic’.¹³ It is true that during the 1970s the so called ‘periphery’ – territories distant from large cities, metropolitan areas or large poles of industrialisation in Italy – achieved remarkable industrial growth and attracted scientific attention because of its unexpected development trajectories. Yet there was basically no justification – if not the bias introduced by hidden presumptions – for the unbalanced representation of the Italian territory to date predominant in the scientific and public discourse on territorial development.¹⁴ This representation has pushed the study of the structural evolution, and the accumulation of actual and potential disequilibria of the most important urban systems in Italy into the background.

Unlike those of other social sciences – sociology and anthropology, for instance – most of the scientific paradigms used in economics have found it difficult to accommodate cities. Regional economics too has long neglected cities, and its standard models do not envisage spatial concentration, and hence proximity, as a causal factor of economic phenomena. Spatial concentration has received economic explanation but has not been regarded as an explanans. Cities – as well as towns, villages, and the like – exist for economic reasons, but they do not have economic effects (apart from reducing transport costs). Yet by moving from the concept of ‘space’ to that of ‘territory’, modern regional economics has turned the structure of agglomerations into a causal factor – and by so doing it has de facto opened the way for cities to occupy a key position.¹⁵ Yet cities as systems still remain in the background as objects of economic analysis.¹⁶

¹³ Cities have remained at centre stage in evolutionary regional economics (Camagni, 1992; Ciciotti, 1993, chapter 3), but the urban dimension of regional and national economic development and the comparative performances of cities or the evolution of their structures have not been extensively researched empirically.

¹⁴ Indeed, none of the above-described research programmes has devoted attention to villages, towns, networks of towns or dis-organized territories – that is, to local systems which are not cities.

¹⁵ The fundamental methodological shift from ‘space’ to ‘territory’ distinctive of regional economics of the past two decades is extensively discussed in a recent textbook: see Capello (2004, chapters VII and VIII).

¹⁶ Most textbooks on urban economics focus on specific urban phenomena – like the internal spatial organisation of cities or the formation of rent – but they do not treat cities as units of analysis, nor, in particular, as social systems on a specific scale with evolving structures and

The negative heuristic that has impeded adequate consideration of cities in most paradigms of economics has a single analytical origin: the assumption of the irrelevance – or marginal relevance – of externalities (coupled with that of zero transport costs). If proximity is only relevant because it reduces transport costs – and if transport costs are best omitted from the core of economic analysis – economics has no need to deal empirically and theoretically with cities, since in the same scientific paradigms externalities are a negligible phenomenon. This perspective may be meaningful in the various strands of neo-classical economics, but it is of little significance in other scientific paradigms. And it certainly does not square with the methodological premises of modern regional economics or of neo-Marshallian industrial economics.

Still unanswered, therefore, is the question as to why it was not noticed that putting the study of ‘industrial districts’ or ‘innovative milieus’ or ‘territorial systems’ – as long as they are defined as they have been defined – on the agenda was, in Italy, tantamount to bringing the study of cities to centre stage. The consolidation of this somewhat paradoxical perspective depends on the route by which the local relational densities termed ‘industrial districts’, ‘territorial systems’, ‘innovative milieus’, and the like, have become important objects of analysis.

Evolutionary regional economics and neo-Marshallian industrial economics began their analyses with ‘exceptional cases’ of the spatial manifestation of industrial externalities: Their initial focus was on spatial agglomerations of business firms generating the spatial concentration of external economies. Surveys of the territory – national territory or macro-regions – identified ‘industrial districts’ or ‘innovative milieus’. These were ‘spatially bounded’ by examining the spatial manifestation of self-organisation processes driven by the exploitation of localised externalities generated by firms. Analysis of local systems was therefore a two-step process involving identification of (a) spatial concentrations of industrial externalities and of (b) local networks of firms.

As previously noted, a crucial methodological step was development of a model explaining how a local network of firms operates. Such a model had to be based on the institutional and anthropological features of the local society in which that particular network was embedded. Consequently, the object of analysis became a system consisting of two intersecting networks – (a) the industrial network, (b) the social network – each of which closely influenced the workings of the other.

achieving specific economic performances. A notable exception is Camagni (1992, chapters 10, 11 and 12), who has gone beyond the traditional study field of urban economics to examine, on the basis of an array of models, the economic development of the city understood as a unit.

When examination was made of these 'conceptual artefacts' consisting of two distinct but interdependent networks of agents and selected in the manner described above, it was not easily recognised that what had been selected was very often a type of spatial relational density which was the specific manifestation of an ideal-type of agglomeration, namely the city. Nor was it recognised that a methodological framework had been developed which was very similar to that of 'urban studies' in that this conceptual artefact required an interdisciplinary approach to be understood.

The negative heuristic that has prevented cities and their analysis from occupying centre stage in interpretation of Italian economic development has two main components: (a) a city is a city if it has political-administrative autonomy; (b) a city is a city if it takes the form of a compact spatial settlement. These two features – political autonomy, physical compactness – have been implicitly assumed to be constitutive of the concept of city. It was not acknowledged that a city is above all a specific kind of 'relational system', which may have various spatial manifestations and also various regulation procedures. The fundamental phenomena of 'urban (and industrial) sprawl' from one side, and of 'strategic cooperation' on the other have radically changed the standard conception of city.

Practically all local systems in Italy (from industrial districts to metropolitan areas) today take the form of clusters of contiguous communes – clusters so closely territorially integrated that constitute a single territorial entity even though they lack any form of political cooperation and consequently do not have a central formal regulation system (Calafati, 2002, 2004). They take the form of systems that exist as 'units of self-organisation', not – or not yet – as 'units of collective regulation'. The concepts of industrial district and local milieu have both been used to refer to 'bounded territories' with strong self-organisation capacity but without an integrated collective decision-making process. The 'urban systems' used in comparative regional economics have the same nature as well.

A political mechanism of self-regulation has driven the history of the city. Yet the more cities have grown in complexity, the more self-organisation mechanisms have become important in explaining their evolution. If one accepts the hypothesis that complex systems have a variety of first- and second-order self-organisation mechanisms (Waddington, 1977), one may conclude that a social system may work for a while – but long enough – without a centralised regulation system. From this methodological perspective, the spatial overlapping of self-organisation and regulation mechanisms is not to be considered a constitutive feature of a city. The overlapping of these two mechanisms is very important because it affects the performances of the

system in the long run, but it ought not to be considered a defining feature of a city.

The second question is the spatial compactness of a city. We tend to stick to a physical image of city derived from the conceptualisation proposed to social science at the beginning of the century by Max Weber (1950): a city is a settlement of which spatial compactness is one of its defining features. Weber's image of the European city as a circumscribed and compact settlement belongs to European history and imagery. Yet, however deeply rooted this feature may be in our mental categories, the physical compactness of the city has long been irrelevant as a definitional element, and it has, moreover, been de facto abandoned in the planning process. We take the density of social relationships to be the constitutive element of a city, and then distinguish between cities which are compact and cities which are dispersed in space. The 'dispersed city' (Camagni et al., 2002; Calafati, 2003) – be it the outcome of urban sprawl or of territorial coalescence – has become a critical category in social sciences because it is the dominant mode of territorial organisation in most European developed countries – and in Italy as well. Indeed, the concept of dispersed city may very often be used to characterise local systems in Italy.¹⁷

If it had been recognised that introducing local systems into the categorial system of economics was equivalent to placing cities at centre stage, important consequences would have ensued. Such methodological step would firstly have directed attention from a specific and limited sub-set of cases to the entire Italian territory articulated into local systems of diverse scale, structure and economic importance.¹⁸ It would, secondly, have made policy-makers aware that the focus on 'exceptional cases' of local development was misplaced – since in so doing the complexity of the Italian territory was neglected and the problem of devising policies for the territorial units of great importance for long-run national and regional economic development was practically forgotten.

Avoiding the study of cities made it possible to distance local development economics from urban studies, and from the strong interdisciplinary research style advocated in that discipline. This approach was yet self-contradictory, however, because local development economics de facto recommended and

¹⁷ Italian territorial organisation does not take only the form of dispersed cities. Italy still has many territorially disconnected villages or towns substantially unaffected by territorial integration. The Apennines and the Alps, and other geographic regions, comprise many localities of this type. Moreover, territorial coalescence has generated another territorial configuration in Italy: 'networks of small contiguous towns' (see Calafati, 2002).

¹⁸ Since the 1980s this issue has been addressed empirically, and a map of Italy based on clusters of contiguous communes – inappropriately called "local labour systems" – has been produced (Istat-Irpet, 1987; Istat, 1997).

took an interdisciplinary approach to study of a conceptual artefact that was nothing other than a specific type of city – maybe ‘a city in nuce’ but a city nevertheless.

7 Cities and the interpretation of territorial performances in Italy

From an analytical perspective, placing cities – understood as ‘territorial facts’ not as ‘administrative facts’ – at centre stage in the study of Italian economic development would have had many theoretical and policy implications. Firstly, it would have finally focused attention on a type of local system with fundamental importance for the Italian economy (as for most capitalist economies). The focus on concrete cases of local systems or types of local systems – for example ‘industrial districts’ – is largely unwarranted, no matter how theoretically interesting their structures and evolutionary trajectories may be. Italy’s development trajectory depends on the economic performances of all its local systems – and in particular on its main cities.¹⁹

Secondly, distinguishing the concept of local system from its concrete manifestations in space and time has opened the way for the Italian discourse on local development to make adequate consideration of specific types of local systems – and territories – to date almost entirely neglected. Besides cities (and metropolitan areas) there are other spatial configurations – *villages, towns, weak and strong networks of towns* – in Italy which are of great importance. Although their contributions to national product and evolutionary potential may be negligible, these systems (in which a large share of the population still lives) perform a role in the social and ecological stabilisation of the territory which should not go unnoticed. The focus on ‘exceptional cases of local development’ dominant in the scientific discourse on territorial development has led to the neglect of both large and medium-sized cities, as well as a large number of villages and towns (and networks of towns) which govern crucial areas of the Italian territory.

Finally, it would be recognised by economists as well – and in the context of economic policy construction – that the Italian ‘territorial revolution’ of recent decades has raised a fundamental and critical institutional issue: the new local systems making up the Italian territory – and certainly the cities *in nuce* arising in every part of the country – must somehow be converted into ‘political-

¹⁹ Note that, in putting forward a theoretical framework to study local systems, local development economics has furnished a conceptual, methodological and theoretical basis whose range of application goes largely beyond the concrete cases to which most attention has hitherto been devoted.

administrative' units. They must be endowed with well-defined mechanisms of collective regulation – however innovative these mechanisms may have to be. Indeed, an urgent issue on the Italian policy agenda is how to redesign the local governance structure around the local systems which today form the nodes of territorial organisation.

There is a further methodological question to consider. By giving a scientific status to cities, economics would finally align itself with other social sciences. This would enable exchange with the latter of theoretical insights and empirical findings on that special type of economic organisation constituted by a city. Indeed, local development economics has had to rediscover findings that in the field of urban studies – and in particular certain disciplines internal to it (for instance, urban sociology or urban planning) – had long been discovered. Outside economics there is much scientific knowledge about how cities work – knowledge that can be used to plot their potential development trajectories and shape development policies. This is not a minor point now that urban policies have regained a strategic role in development policies.

8 Conclusion

In retrospect, the conceptual trajectory followed in Italy to interpret and explain the highly complex pattern of territorial performances over the past five decades has ended up with the category of 'local system' – a category that has permitted the explanatory role of institutional (and anthropological) factors to be integrated with externalities. I have argued that if a local system is correctly understood, it is very often a 'city'. That of 'local system' is a general category and it should be treated as such, with identification being made of the concrete local systems which form the Italian economic landscape, and of which 'cities' are the most important type.

For a local system to be classified as a 'city' it should have certain features in terms of size, variety of economic processes, degree of individual loyalty to the local system and identification with it, innovation potential, and other factors besides. Not necessarily, however, do political regulation and spatial compactness have to be constitutive features of the spatial organisation called 'city' in modern capitalism. The territorial revolution which has taken place in Italy over the last five decades has generated spatial organisations that are cities *in nuce* – cities in the process of consolidation but which are nevertheless cities.

The discrepancy between cities as 'territorial facts' and cities as 'political administrative facts' raises the problem of identifying cities in the field. But this is not an insurmountable problem. System theory allows us to work with trans-scalar units and mobile boundaries and to discover self-organisation processes

– and local systems – in the territory with a sufficient degree of reliability. Indeed, there seem to be sufficient preconditions for cities finally to become fundamental objects of analysis in the Italian discourse on economic development.

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