Exit, voice and the evolution of industrial districts: the case of the post-World War II economic development of Prato

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In this paper, the Hirschmanian exit–voice approach is applied to the development of industrial districts. The analysis of the post-World War II evolution of the Prato district helps to make explicit how the industrial district competitive advantage can be reproduced over time during periods of regular development. In addition, the exit–voice polarity helps in understanding also the specific difficulties that industrial districts face in responding to major changes in their external circumstances. In particular, the case examined sheds light on the role that conscious collective action has in permitting the successful adjustment of a local system.

Key words: Industrial districts, Exit–voice approach, Economic and social development
JEL classifications: O18, L14, L20

1. Introduction

More than thirty years have now passed since Albert O. Hirschman, with acumen and originality, proposed the two concepts of exit and of voice as ‘responses to decline in firms, organisations and states’ (Hirschman, 1970). Since then, the exit–voice perspective has had numerous applications, in economics as well as in other areas of the social sciences,1 thus contributing to its extension. Therefore, it is not surprising that such an approach, proposed by Hirschman to bridge the gap between the economic and the political world (Hirschman, 1987, p. 219), turns out to be useful also in analysing the industrial district.2

Exit and voice are two different ways of reacting to a state of dissatisfaction, so as to

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1 The principal applications of the exit and voice perspective now involve many areas: trade unions, industrial organisation, public services, population migrations, political parties, marriage and even child development, see Hirschman (1987). More recently Hirschman himself applied it to analyse the fall of the German Democratic Republic (1995, pp. 9–44). For an original application of the exit–voice approach to business associations, see Becattini (1979). On the genesis and the developments of the exit–voice approach, see Meldolesi (1995).

2 On industrial districts, there exists such a vast body of theoretical and empirical literature that it cannot be cited in a note. We shall only mention some collections of essays in English: Goodman and Bamford (1989); Pyke et al. (1990); Pyke and Sengenberger (1992); Gossentino et al. (1996); Becattini et al. (2003). For an extensive bibliography on industrial districts and local development see Tessieri in Becattini et al. (2001, pp. 419–77).

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restore performance. We have exit whenever a buyer, supplier or, more generally, one or more members of an organisation who are dissatisfied, respectively, with their purchase, sale or relationship, decide to change product, client or organisation. Exit means withdrawal from a relationship. Exit is an indirect, usually private and individual way of signalling that something is wrong. For example, a firm that sees its sales decline, or whose employees resign, will be induced to revise its organisation to avoid decline (Hirschman, 1970, pp. 21–9). In addition, we have voice when one or more dissatisfied buyers, suppliers or members of an organisation express dissatisfaction to their counterparts or to the management of the organisation, in order to achieve changes suitable to eliminate it. Voice, contrary to exit, is a direct and informative way of signalling problems (Hirschman, 1970, pp. 30–43). Compared with exit, which is the normal reaction in a competitive market, voice is usually more costly. Therefore it is often used when exit is not available, or is expensive in economic terms (e.g., when specific investments have been made within a certain relationship; Hirschman, 1981, p. 222), or in emotional and social terms (e.g., leaving one’s family or country). Furthermore, voice can be individual: for example, a client protesting about delays in supplies. Often, however, it requires collective action, as in the case of wage claims by workers belonging to trades unions (Freeman and Medoff, 1984), in which case it needs some kind of private or public formal institution in order to be expressed (Hirschman, 1987, p. 219; 1995, p. 12).

Thus the dominant reaction is exit in some conditions and voice in others. When they are both available, but exit has a comparatively low cost, recourse to exit frequently reduces the possibilities of activating voice, even when the latter would be more effective. An example is the well-known case of the Nigerian railways, whose improvement of performance was hindered precisely by the availability of the road transportation alternative (Hirschman, 1970, pp. 44–5). The interaction between exit and voice typically follows a see-saw pattern (Hirschman, 1987, p. 222): the greater the exit, the lesser the voice. However, Hirschman also stresses the importance of loyalty in inducing voice on the side of the habitual clients or among members of an organisation who feel bound to it by a sense of belonging. At other times, one may find situations in which exit and voice interact and reinforce each other, thereby accelerating recuperation and eventually leading to major changes, as occurred with the fall of the German Democratic Republic in 1989 (Hirschman, 1995, pp. 13–14).

In this paper, the exit–voice approach is applied to the case of the rise and subsequent evolution of the Prato industrial district, from the post-World War II days up to the present time. This approach is adopted not only to gain a better understanding of the specific events in Prato, which have been considered extensively elsewhere (Dei Ottati, 1994B, 1996B; Becattini, 2001), but also to shed light on the various and changing forms and combinations of recuperation mechanisms which in industrial districts facilitate the preservation and the renewal over time of both economic performance and social cohesion.

In this perspective, it is useful to refer to the applications, and in some respect to the extensions of the original exit–voice model that have been introduced over the years to analyse labour relations (Freeman, 1976, 1996; Freeman and Medoff, 1984; Meldolesi et al., 1996), and supplier relations (Helper, 1990, 1991, 1993, 1996). In particular, in labour relations, we shall apply the extended approach proposed by Freeman (1996), according to which both parties in the labour relationship can choose from a whole spectrum of exit and voice actions. For example, the cessation of a work relation can be due either to the worker resigning or to his/her dismissal by the firm. Furthermore, the act
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of resigning by the worker has different meanings and effects according to whether s/he were to offer his or her services to other firms or to become self-employed. Obviously, the spectrum of forms that voice can take is wider than that of exit. The former can not only be individual or collective, but in either case, whether referring to the workers or the management of the firm, voice can take a variety of forms, of which individual protest and collective bargaining are only the two most common cases. In this extended version of the exit–voice approach, moreover, either part can, if dissatisfied with the results obtained by the action undertaken, resort to political mediation, applying to (local or national) public authorities, in the hope of having their claims satisfied through legislation or through institutional changes (Freeman, 1996, pp. 6–7).

The paper proceeds as follows. In Section 2, the role of the Hirschmanian recuperation mechanisms are considered during the years of industrial district formation. In Section 3, we analyse the combinations of exit and voice which prevailed in the long period of subsequent economic development. In Section 4, we examine the loss of efficacy of the previously adopted mechanisms during the crisis of the 1980s, and the emergence of new forms of exit and voice that contributed to the recovery. In Section 5, some general conclusions are drawn.

2. Changing interaction and forms of exit and voice during industrial district formation

2.1 Massive exit, first undercutting and then changing the form of voice in labour relations

Prato had been an important centre of the woolen industry since before World War II, being one of the three main locations of the wool industry in Italy. Despite the damage inflicted on local infrastructures and industrial plants by the war, towards the end of 1945 local industry production capacity was back to its pre-war level. The high demand for textiles in the immediate post-World War II period favoured intense development, so that from 1945 to 1948 the number of people employed in the Prato industry more than doubled, rising from about 10,000 to about 22,000 workers. Development concerned both of the two differently organised parts of the local industry, namely the restricted number of large vertically integrated wool-mills and the numerous *impannatori* and small firms, each specialising in one or a few phases of the woollen production process.

After 1948, however, the local economic situation changed, mainly owing to changes in domestic and above all foreign demand for woollens. In particular, the vertically integrated mills lost their former export markets, South Africa, the Middle East and India, as a result of the adoption of protectionist policies by the governments of these countries, and more generally owing to the changed context of international trade after the war. Thus the larger Prato mills suddenly became unprofitable, chiefly because their plants and workforce could not be used to full capacity. The management response to that situation was to close down whole sections of their factories, forcing the lay-off of thousands of workers. Despite the attempts made by workers’ unions to organise strikes to call a halt to the dismissals, within about two years the vertically integrated mills had dismantled many of their former in-house divisions, subcontracting most of the production phases to specialised external suppliers. The peculiarity of this reaction to the crisis

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1 The *impannatore* is a typical figure of Prato industry. The *impannatore* buys the raw material and has it transformed by many subcontractors, each specialising in a different phase of the textile process.

2 On the events that led to the formation of the Prato industrial district in the first decade after the war, see Dei Ottati (1994B) and Absalom *et al.* (1997).
by the larger mills was that their management offered the dismissed workers the chance of becoming self-employed, with the promise of either renting them the required machinery, or allowing them to acquire it on credit, which was to be paid from work to be ordered.

The foregoing brief account outlines the responses to problems arising in Prato labour relations, during the period of district formation. Clearly, before the outbreak of the crisis at the end of the 1940s, the two different subsystems of the local woollen industry relied on distinct modes of reacting to discontent in labour relations. In the vertically integrated mills, collective bargaining (voice) through the unions was the usual way to react to problems in the workplace. In the other subsystem formed by many small firms specialised either in one of the phases of the woollen process, or in the marketing of cloth (impannatori), the recuperation mechanisms available were more varied. As the firms in this subsystem were small, they were usually run by the entrepreneurs themselves, often working side by side with a few employees. This favoured the establishment of direct dialogue and sometimes mutual understanding, hence voice relations, between the parties in the labour contract. Despite this, the normal response to persisting deterioration was exit, partly because it was relatively easy during the immediate post-World War II boom for both employers and workers to find a substitute in the local market. Moreover, most skilled and trustworthy workers had another exit option available: they could attempt to become self-employed. Indeed, from 1945 to 1947 the number of self-employed in Prato industry increased considerably.1

As we have seen, the response of the larger mills’ management to the problems resulting from closure of their traditional markets was a massive exit. This process, as is frequently the case (Hirschman, 1970, p. 43), undermined voice in the previously established form of collective bargaining. However, the decision to lay off workers was accompanied by the direct proposal to many of them to become self-employed, encouraging workers to accept this solution by offering the capital required to set up on their own. Many ex-employees complied with such a form of exit, partly because the alternative was unemployment, and partly because of the widespread belief that ‘those who are able, make their way and create their own future’ (PCI, 1954, p. 8).2

Thus, within a short period of time, the structure of Prato industry changed radically. With the vertical de-integration of the larger mills, the system based on the division of labour among specialised firms became the dominant one. In conclusion, the metamorphosis that gave rise to industrial district formation was the joint outcome of both massive exit from labour towards self-employment, on the one hand, and the activation of individual voice, in substitution for the collective voice that the crisis had atrophied, on the other.

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1 The available statistics, which are certainly incomplete because of the presence of unregistered activities, indicate that licences for the operation of textile machinery issued by the Borough of Prato from late 1945 to late 1948 were in excess of 1,000 (Cioni, 1997, p. 242).

2 An anonymous document of the Prato PCI (Italian Communist Party) secretariat, dated 4 April 1954, reads: ‘Many workers do not exclude, exactly because they are vitiated by the environment (sic!), the possibility of bettering themselves economically through a stroke of luck, which is thought possible for anyone who will not waste the opportunity. It is because of this mentality that, although the crisis and the consequent industrial closures have operated vast reductions among industrial personnel, there is no total unemployed in Prato, but, rather, partially unemployed people who do not queue up at the unemployment office, but try to make both ends meet by relying on their natural capacity for adaptation, their dynamism, their will to do, without consideration for sacrifices or anything else’ (PCI, 1954, pp. 9–10).
2.2 The formation of collective voice to prevent excessive exit in local phase markets

As a result of the above-described processes, the number of self-employed workers and specialised small firms grew substantially during the immediate post-World War II economic boom. For each specialised activity, from sorting rags to selling woollen cloth, a local market was created. Henceforth, we shall call such markets ‘phase markets’. Naturally, the reaction to the crisis in the vertically integrated firms brought about a sudden increase in the extent of such markets, owing to the entry of new subcontractors formerly employed in larger mills. In some phase markets, such as that for weaving operations, entry was particularly massive, with thousands of new self-employed weavers.1

Now, within those phase markets, what types of response were developed to the problems arising in customer–supplier relations? In order to answer this question, a distinction must be made between the years of general development, and the years in which the crisis affected the larger mills. Before 1948, precisely because of the division of labour among small firms, the flow of information between parties in supplier relations had to be frequent and reciprocal, in order to coordinate effectively the complementary activities carried out by different specialists.2 Thus, the frequency of personal face-to-face contacts, also favoured by proximity and by the internal organisation of the firms (individual and family businesses), promoted the establishment of dialogue between the people involved. That, in turn, allowed the expression of a certain level of voice, before resorting to exit in the case of dissatisfaction. However, as there were many similar firms in each specialised activity, exit, in the form of switching to another supplier or even customer, was the normal response to enduring discontent in a relationship.

After 1948, the situation changed completely. The massive entry of the formerly employed workers into the phase markets led to fierce competition in many of these markets and particularly among self-employed weavers. Consequently, the prices for weaving, as well as for other textile operations subcontracted to local phase firms, dropped substantially.3 As prices fell, discontent grew among self-employed workers. But in the changed conditions, the individual protest (voice) was not ‘listened’ to, nor could self-employed workers find another subcontracting firm, impannatore or mill (exit), willing to pay ‘fair’ rates, owing to the difference in bargaining power between the two parties in the local supplier relations. Both the mechanisms of recuperation available before the crisis in the major mills had now become ineffectual. Hence, self-employed workers’ dissatisfaction intensified in the community, especially since the large number of people affected meant that the fall in weaving rates produced a decline in the overall local living standard. This led to the need to discover a new way of exerting influence in order to re-establish satisfactory supplier relations.

The beginning of 1950 saw the first attempt to organise the collective voice of Prato self-employed workers.4 At that time, however, those who had become self-employed to try their luck during the post-World War II boom, and those who had accepted the offer to set up on their own to avoid unemployment, still constituted two separate groups, with

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1 Although the spread of self-employment during the 1940s crisis is recorded by many local sources, it is difficult to assess the precise figures referring to this sector. According to trade union records, the Prato artisan weavers in 1952 numbered about 5,000, while in 1947 they were only about 1,000.

2 On the coordination of closely complementary activities, see Richardson (1972).

3 The dramatic fall in weaving rates is widely testified by the local press of the time. A letter by some self-employed weavers published in Il Nuovo Corriere on 17 July 1952, for example, reads: ‘the work that . . . should be paid 80 lire every thousand strokes (of the loom), is paid 40 and sometimes 35 lire’.

4 In January 1950, the Prato left-wing parties formed a trade union of self-employed weavers, see Il Nuovo Corriere, 5 January 1950.
distinct identities. For this reason, this first attempt failed. It was not until two years later that the Prato self-employed weavers succeeded in organising their collective voice. As is usually the case, horizontal voice, that is to say public information concerning the problem, preceded vertical voice, i.e., protest action designed to obtain the desired change. In fact, horizontal voice was expressed repeatedly, for example, in the local press. In particular, in 1952 a letter from a group of self-employed weavers was published, in which, after denouncing the serious difficulties they faced, they exhorted all the local subcontractors to organise a collective protest in order to obtain fair rates. Horizontal voice was important because it contributed to the creation and diffusion of a common identity among local self-employed workers, which was a necessary precondition for the mobilisation of vertical voice. This was followed, in the summer of 1952, by a series of lockouts of all Prato subcontractors, organised by the local Artisans’ Associations. And this time, the collective protest was successful.

This historical overview reveals that, during the period of industrial district formation, the available options of exit and voice and their interaction changed over time. At first, individual voice and exit in the form of substitution joined forces and engaged in concerted action to maintain satisfactory supplier relations. Later, however, the cut-throat competition among local subcontractors resulting from the massive entry of new workers dismissed by the larger mills silenced their individual voice and made it impossible for them to opt for exit and find a substitute. This inverse relationship between exit and voice was then reversed again with the formation of vertical voice through the collective mobilisation of the Artisans’ Associations. Thus the economic transformation that brought about the birth of the Prato industrial district, overcoming what might have been a risk of decline for local industry, was also partly to be credited to the social creativity of Prato people. In particular, it proved possible to restore good performance in local supplier relations by the ability to create institutions for the expression of the subcontractors’ collective voice. In fact, deliberate action was taken to interfere with the market mechanism, so as to prevent its degeneration into destructive forms of competition.

2.3 Political action, common identity and the activation of voice in local economic relations
In the preceding sections, we saw how in Prato, during the first post-World War II decade, the various forms of exit and voice contributed, on the one hand, to the exceptional acceleration of the division of labour among firms, and on the other, to the formation of a social and institutional context in which purposeful action, both individual and collective, could intervene to prevent destructive forms of competition (exit) from causing a ‘public bad’ (Hirschman, 1987, p. 220). This outcome, and more specifically ‘the development of the art of voice’ (Hirschman, 1970, p. 43), was additionally favoured through the action undertaken by local authorities, after the first massive dismissals from the vertically
integrated mills in December 1949. At that time, the union’s failure to stop lay-offs was already clear. The workers’ representatives therefore decided to resort to political action: they brought the problem directly to the attention of the Borough Council. The immediate effect of this move was to accelerate the dismissals, as it caused a break in union-management discussion.

The politicisation of worker discontent also had more long-term, positive consequences. The Borough Council gave the Mayor the mandate to form a Town Committee, representing all the main economic categories in the area, to examine the problem of the crisis and to prepare a mutually agreed recovery programme. After a few months, the programme was completed, and it was unanimously approved by all members of the Prato Council, before it was submitted to the national government in Rome.\(^1\) Despite the fact that the response of the central authorities proved disappointing, the politicisation of the larger mills’ crisis was important for the emergence of the industrial district. Its importance can be explained in the sense that, once the workers’ problem was brought to the attention of local government, it was changed from a private into a public issue. Thereafter, local institutions, and above all the left-wing administration of Prato, strongly helped the formation of horizontal voice and its dissemination in the community. This, in turn, promoted the widespread involvement of the population in the effort to help Prato industry ‘take a step forward’ (Trade union document dated 5 October 1952).

It is thus apparent that political action contributed substantially to the building and reinforcement of the individual and collective identity bound to the future of the local industry, now felt as ‘our industry’.\(^2\) Clearly, this common identity was decisive for the accomplishment of the economic transformation that gave rise to the Prato industrial district. Political action, spreading confidence in the public intervention to support recovery, and promoting a general commitment to recovery, facilitated the expression of individual voice, and hence the acceptance of exit towards self-employment by many dismissed workers. But, above all, political action and the ensuing emergence of a common identity were crucial for the activation of the subcontractors’ collective voice. It was thus possible to create the social and institutional context necessary for the expression of voice in its various and changing forms, a feature which was indispensable to the smooth functioning of the new industrial organisation.

3. Collaboration between the various combinations of exit and voice during the continuous development of the industrial district

3.1 The variety of exit and voice options available in labour relations

Following the changes outlined above, which marked the birth of the Prato district, local industry recovered competitiveness. It was then able to take advantage of both the growth in demand for textiles in industrialised countries during the 1950s and 1960s, and the progressive qualitative fragmentation and temporal variation in demand thereafter. All this triggered a process of intense and essentially continuous development for about thirty years. A more detailed account of such a development is given elsewhere (Dei Ottati, 1994B; Becattini, 2001).\(^3\) Here, we are interested in focusing on the mechanisms of

\(^1\) See ‘Atti del consiglio comunale di Prato’, 30 December 1949 and 15 April 1959.
\(^2\) The Communist Party document cited in fn. 2 on p. 504, for example, reads: ‘the textile industry belongs to the whole Town, it is everybody’s property and must be saved in the interest of all’ (PCI, 1954, p. 44).
\(^3\) On the extraordinary development of Prato from the mid-1950s to the early 1980s, see also Lorenzoni (1980), Nigro (1986) and Balestri (1990).
A distinctive feature of an industrial district’s labour market is the high rate of job mobility, both horizontal and vertical. Workers frequently change jobs, especially at the beginning of their career. But it is also quite common for employees to become self-employed, once they have acquired the production knowledge and the personal reputation which are the prerequisites for starting a business in the district. This was particularly true in the period of continual growth of the Prato district. Workers who for any reason were dissatisfied with their job could easily resort to exit, either in the form of quitting their previous job to take another one or becoming self-employed. Similarly, entrepreneurs and managers who were willing to improve the performance of their firm could have recourse to exit, either by replacing slack or less competent workers with more productive employees, or by helping some of their skilled and energetic workers to set up their own business, and become their suppliers.

The exit option towards self-employment, however, was normally available precisely because of the activation of individual voice in labour relations. This was partly due to the division of labour: district firms are small and usually run by the owner or by a family whose members are directly involved in the business. Hence, continuing personal contacts and communication between workers and employers are quite common in industrial district labour relations. It is precisely this close and repeated interaction that sometimes allows workers to build up the good personal reputation to be offered as a security against the advance usually necessary to start a business (Dei Ottati, 1994A, pp. 531–4).

Besides the availability of the two different exit options and the diffusion of individual voice mentioned above, during the continuous development enjoyed by Prato the preservation of satisfactory labour relations also relied on collective voice. Shortly after the industrial transformation of the early 1950s, the Prato district underwent a period of rapid growth: employment in textiles rose from about 21,500 workers in 1951 to 61,100 in 1981; the number of textile works in the same period increased from 830 to about 14,700 (ISTAT, Census of Industry and Commerce, 1951 and 1981), while Prato exports rose from about 100 billion liras in 1963 to more than 400 billion (constant values) in 1980 (CCIAA). Consequently, the district labour market soon became tight, and the conditions arose for the resurgence of collective voice through the unions. Already towards the end of the 1950s, but even more so during the 1960s and 1970s, the voice of Prato’s unions made itself heard again, through the local collective negotiation of extra compensation above the nationally agreed wages in the same sector.

It should be noted, however, that the unions’ voice in the district was distinctive in several respects. The first concerns the predominance of the territorial (district) level of bargaining over the company level, which is typical of large firms. This is easy to account for, bearing in mind that the territory is a fundamental element in the district as a socio-economic organisation. A second peculiarity concerns the priority, in local negotiation, of wage bargaining over working conditions. This is surprising, if one considers that, in the 1950s and 1960s, local working conditions were hard, generally involving long hours.

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1 On labour mobility in industrial districts, see Becattini (1990) and Dei Ottati (1994A, pp. 538–40). On the importance of vertical mobility through self-employment in Emilia Romagna, a region with many industrial districts, see Solinas (1996).

2 On industrial relations in Prato from the end of the war to the mid-1980s, and in particular on the high degree of unionisation (almost double the national average at the beginning of the 1960s), see Trigilia (1989, pp. 283–333).
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makeshift premises and machinery often dangerous for the health of the workers. The lack of emphasis on working conditions can be explained, at least partially, in terms of the social mobility which could be accomplished through exit towards self-employment. The possibility of setting up one’s own business justifies the low level of interest of local workers’ representatives in bargaining over the various aspects of work organisation (in particular overtime). Salaried work was often considered a transitory experience, even if necessary to acquire professional know-how, a good personal reputation, and a small amount of money capital, all of which were indispensable in endeavouring to become self-employed. From this perspective, detailed regulation of the organisation of labour was not only disadvantageous to the employers, but it was also opposed by many employees, for it would have reduced workers’ opportunities and incentives to acquire the human capital necessary for vertical mobility through self-employment. Conversely, union negotiations concentrating on wages allowed the employees to benefit immediately from part of the gains of increased productivity resulting from their work commitment, thanks to which they could also build a good reputation and learn the relevant skills more quickly.

The above account allows us to draw some conclusions. The preservation of satisfactory labour relations for such a long time in the Prato district was possible because of the widespread availability (for workers and employers) of a variety of options both of exit and voice, which interacted so as to reinforce each other. In particular, exit through substitution fuelled horizontal mobility and was a consequence of market competition. In addition, exit toward self-employment sustained vertical mobility and was more characteristic of the industrial district milieu. Indeed, the availability of this second kind of exit required the diffusion of individual voice among the partners in labour relations. But communication in economic relations inside the district was favoured by social division of labour on the one hand, and the need for its integration on the other. Clearly, both forms of exit were important in maintaining high labour performance. However, the kind of exit that fostered a new social division of labour was much more favourable to economic development. This was so for various reasons. First, the prospect of vertical mobility was a powerful incentive in counteracting the natural tendency towards slack and, more crucially, in promoting the use of individual imagination and initiative for a large number of people. Moreover, exit towards self-employment promoted economic performance, because it enhanced both specialisation and variety through social division of labour in the local system, and, as Alfred Marshall recognised, variety is a major cause of progress (Marshall, 1961, p. 355). Finally, it should be borne in mind that, while the first form of exit is the automatic reaction in a competitive market, the second kind of exit toward self-employment requires forethought and deliberate action.

The intimate and reinforcing interaction between exit and voice was not limited to vertical mobility, but extended also to the normal working of district markets. Thus, the voice through collective bargaining between local unions and business associations was important in ensuring fair competition in the local labour market, in particular because it limited the possibility for district firms to resort to low wages. Instead, if they wished to improve performance they had to invest and innovate. Taken together, these processes brought about local economic development which, in turn, promoted the birth of new firms, and attracted new workers from other regions as well, thus keeping competition alive (exit).

1 Note that in the Prato district, from 1951 to 1981, despite the enormous increase in industrial employment, the proportion of employees dropped from 66% in 1951 to 47% in 1981 (ISTAT, Census of Population, 1951, 1981).

3.2 The variety of exit and voice options available in supplier relations

The preceding section showed how, during the period of continuous growth of the district, the number of firms, both those that specialised in the various production phases of local industry (phase-firms) and those involved in the marketing of its final products (final firms), increased enormously. To gain an idea of the kind and extent of Prato industrial development, note that in the 30-year period from 1951 to 1981, employment in textiles increased by 184%, while the number of firms in the same sector increased by 1,671%. As a consequence of the development through vertical and horizontal division of labour among firms, the extent and the variety of local markets for specialised activities likewise increased. For instance, firms specialising in winding yarn numbered just two in 1951 and had become more than 1,000 by 1981; or, to give another example, there were eight firms specialising in warping in 1951 but over 300 by 1981, giving rise to new local markets for such production phases. In the same period, however, firms specialising in marketing textile goods (final firms) also increased from about 400 in 1951 to more than 1,100 in 1981 (Chamber of Commerce registrations).\(^1\)

Clearly, as already noted, the coordination of this division of labour required more complex devices than the standard price mechanism. In particular, there was a need for greater exchange of information between the different specialists. In Prato, this need was particularly acute. Here, on the one hand, the division of labour was now extreme, requiring a great deal of communication in order to obtain effective coordination. On the other hand, the diffusion of individual and family businesses and their embedding in everyday life favoured direct contacts between people involved in production. That was above all the case in supplier relations, thus offering business partners the opportunity to build good personal reputations. As considered elsewhere (Dei Ottati, 1994A; 1994C, p. 467), investments in personal reputation tended to develop preferential economic relations among a restricted number of people (firms) who were well-acquainted with one another. Consequently, repeated exchanges and direct connections among such contacts (usually owners of firms specialising in complementary activities) tended to form over time a particular organisation for which we shall use the expression a ‘team of enterprises’.\(^2\) A characteristic of these teams was that, within them, the coordination of specialised activities carried out by different enterprises was both closer and cheaper than it was for enterprises that were external to the team, thereby normally ensuring better performance by the firms belonging to a team.

In addition to the increase in size and variety of local phase markets and the formation of teams of enterprises, the protracted development of the Prato district brought about another change: collective bargaining in local supplier relations. The extraordinary growth of the number of firms, particularly of small artisan phase firms, strengthened the local Artisans’ Associations. This was paralleled by an increase in the number of final firms, these latter usually being members of the local Industrialists’ Association. From 1959 onwards, the Artisans’ Associations and the Industrialists’ Association of Prato decided to negotiate local supplier relations collectively, in order to avert the risk that cut-throat competition might be harmful to both parties, creating ‘great disturbance in the local

\(^1\) For an analysis of the evolution of the various populations of specialised firms in the Prato district using the ecological approach, see Lazzeretti and Storai (1999).

\(^2\) On district teams of enterprises see Becattini (2001); on teams and groups of enterprises in the industrial districts of Tuscany, see Dei Ottati (1996A, 1996B). The kind of organisation we call team of enterprises is partly similar to that which Alfred Marshall calls ‘external organisation’ (Marshall, 1961, p. 458).
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In particular, since then the prices for weaving operations normally sub-contracted to independent weaving artisans have been determined, yearly or two-yearly, through collective bargaining. In addition to prices, this collective bargaining included some ‘general rules’, such as the regulation of disputes, the production of samples, or the extra remuneration to be paid for special requirements.

The foregoing account sketches the main features of supplier relations during the 30 years of Prato development and helps make explicit the recuperation mechanisms that contributed to maintaining heightened performance for such a long time. Here again, as in labour relations, local agents could resort to a variety of options both of exit and voice, normally sustaining each other.

Exit in the form of substitution with another similar firm was rather easy for each party in the supplier relation, precisely because of the process of vertical and horizontal division of labour. But the coordination of the social division of labour required frequent and intense communication, and hence the use of individual voice, both between the contracting parties and among people specialising in the same and in complementary activities. As pointed out earlier, the incentive for repeated exchanges and frequent direct contacts among the same business partners not only favoured the building up of good personal reputations, but also, over time, gave rise to informal organisations or teams of enterprises whose members usually performed better. Hence, specialised firms had an incentive to build up good reputations in order to exit in the form of becoming member of a team. This meant that partners in district supplier relations aiming to improve their performance could resort to two different forms of exit, both of which, however, needed some collaboration of voice to be effective. Moreover, the range of voice options was larger than of exit options. Not only was the volume of individual voice higher in team relations than in normal local supplier relations, but collective voice was also available.

The collective bargaining conducted by the Artisans’ and Industrialists’ Associations on rates for subcontracted weaving operations (a central phase in the production process of local industry), as well as on general rules was important in establishing and preserving satisfactory supplier relations. Through conscious negotiation, the Associations representing the two parties in the local supplier relations could define rules of behaviour, and in the case of weaving also benchmark prices, which enabled the policing of competition (exit) inside the district markets. In this way, it was possible to avoid the spread of destructive forms, such as cut-throat competition among local firms in cases of fluctuation in final demand.

Thus overall, in supplier as in labour relations, deliberate human action helped preserve market conditions in which exit and voice, in the various forms, collaborated to maintain high performance through continual experimentation and reciprocal adaptation.

3.3 Voice as a function of loyalty in teams of enterprises

It was stated above that local division of labour provided an incentive to repeated exchange of goods, services and information among the same business partners, leading to the rise of teams of enterprises. Within team organisations, the frequency of interaction and the richness of communication created attachment and loyalty among their members. This enhanced the sense of commitment among partners and extended the scope for voice in the case of reduced performance. As explained by Hirschman (1970, pp. 76–92),

1 Collective agreement on weaving rates in Prato, 12 June 1959.
whenever an organisation starts to deteriorate, a loyal member will eschew the resort to exit and will instead intensify the use of voice for the purpose of promoting improvement. Thus in team relations, the development of mutual knowledge together with trust in the ability to achieve ‘change from within’ activates voice and conscious coordination, with the aim of making a joint effort to find a solution to the problems that have arisen.

The effectiveness of voice in team relations was strengthened by the fact that exit remained available. In fact, even within teams, supplier relations were not exclusive, and it was not too difficult to find substitutes in local markets for the various specialised activities. In this situation, which was well understood by all team members, the threat of exit was credible, and acted in conjunction with voice as part of the continual striving of team members towards effectiveness and innovation.

In conclusion, during the decades of continuous growth of the district, in teams as well as in labour and in supplier relations, exit and voice interacted positively. Exit, which according to Marshall’s theory of economic development corresponds to the automatic mechanism of market competition, and voice, which instead requires more conscious and imaginative action, worked in tandem. It thus proved possible to preserve satisfactory economic relations, and to reproduce the district as a vital local system.

4. Changing interactions and forms of exit and voice during the crisis and restructuring of the industrial district

4.1 Collective voice as governance of massive exit from the local labour market

After more than three decades of extraordinary development, towards the mid-1980s the localised industry of Prato underwent a period of deep crisis that triggered a process of general industrial restructuring. This crisis was mainly due to external changes that heightened pressure on local firms. First, consumers’ tastes, together with their lifestyles had changed in developed countries, leading them to prefer clothing made in lighter and easier to care for fabrics than the carded wool typical of the Prato industry. Second, the introduction of automation technologies by large textile and clothing corporations increased their capacity to compete on production flexibility with district firms. Third, market globalisation in finished goods as well as in components and the emergence of new manufacturers in countries with low labour costs sharpened the pressure of external price competition.

The first sign of crisis was a severe reduction in the local industry workforce, accompanied by the reappearance of unemployment (which had heretofore been a completely unknown). In particular, for four consecutive years (from 1986 to 1989) the number of persons laid off in textiles outnumbered that of hired workers. It soon became clear that adapting local industry to the new external conditions would require a more rapid and substantial change than the continual adjustments and variations of the previous period. Moreover, since one of the main reasons behind the crisis was a shift in consumer demand away from the typical Prato products, many district firms had to reduce both their production capacity and their workforce in order to recover profitability. No wonder, therefore, that the management of such firms decided to resort to exit in its various forms.
by placing many of their employees in unemployment compensation schemes, or giving
them early retirement, or simply firing them.¹

With such a massive exit, one might have expected that, as happened during the forma-
tion of the district, the possibility for workers' to express their voice through the unions
would be severely curtailed. To the contrary, however, perhaps because of the past
decades of essentially collaborative industrial relations, the local workers' collective
voice remained effective.² But in the new labour market conditions, unemployment and
industrial restructuring (instead of wages) became the central issues of collective nego-
tiation. For example, the unions agreed to management restructuring plans that involved
dismissals, but requested that the habit of resorting to overtime in case of increased final
demand should be stopped. It is also important to note that both bargaining parties were
conscious of taking actions aimed at 'favouring the restructuring of firms in difficulties
and promoting the changes necessary to restore efficiency and foster local development'
(District Agreement between Prato Industrialists' Association and Unions of 21 July
1987). For this purpose, the unions and the Industrialists' Association of Prato agreed to
adopt measures supporting job mobility, such as retraining schemes and temporary
reduction of wages for hiring workers who had lost their jobs as a result of the crisis. In
addition, the collective agreement also included the activation of government compensa-
tion schemes for unemployed workers and early retirement, in order to mitigate the
social costs of industrial adjustment.

The district labour market situation thus changed dramatically during the crisis. As a
consequence, individual exit toward self-employment weakened, particularly in textiles,
which had been the pulling sector of local development for decades.³ This change clearly
also reduced the incentives for activation of individual voice. Therefore, one of the
combinations of exit and voice which, in the period of continual development, had so
powerfully contributed to reproducing satisfactory labour relations, became less frequent
during the second half of the 1980s.

However, the massive exit of textile workers that occurred was accompanied by collective
voice through the unions. Thus, even during the industrial crisis of the 1980s, collective
bargaining in labour relations acted together with exit as a mechanism of recuperation,
speeding up economic restructuring and, above all, making it socially acceptable. There-
fore, once again, positive results were obtained thanks to deliberate concerted action aimed
governing the massive exit of workers, whose aggregate effects would have been harmful
to social cohesion, the latter being an indispensable element for district revival.

4.2 Exit first undercutting and then modifying voice in local phase markets

Together with the reduction in salaried labour already considered, the carded wool crisis
of the mid-1980s also brought about a severe drop in the number of small artisan shops
specialising in the various production phases of the local industry. According to the

¹ According to Chamber of Commerce data, the number of people employed in textiles in the Prato district
shrank by approximately 6,000 between 1986 and 1989, falling from approximately 55,000 to 49,000 respec-
tively.

² A clear sign of the cooperative climate in Prato industrial relations is the agreement reached in 1974 by the
unions and the local industrialists' association for the establishment of a fund for social interventions
(destined to finance crèches, public transport, a health service in the workplace), financed by the employers in
an amount equal to 1% of the salaries paid to the workers.

³ It must be noted, however, that while start-ups in textiles dropped significantly, the birth of new firms in
the service sector continued; in particular, start-ups in producer services grew substantially. See Dei Ottati
(1996B).
Chamber of Commerce registrations, the total number of textile firms in the Prato district diminished by more than 4,000 units, going from approximately 14,500 firms in 1986 to 10,000 in 1991. Overall, the system of local markets for specialised activities shrank, though to a different extent in the various phases, notwithstanding a partial compensation owing to the increase in the number of service businesses.\textsuperscript{1} In fact, the crisis had considerably heightened competition to obtain the reduced number of orders among local subcontractors, particularly among those specialising in the initial phases of the typical Prato production process, such as sorting rags, carded spinning and also weaving. This further exacerbated the massive exit from the local markets described above. As in the case of employees, many self-employed people (mainly artisans) retired, or left the workforce, while others changed job.

It would not be an exaggeration to state that overcoming the 1980s crisis required speedy implementation of major changes in both products and processes. Such changes, however, were difficult to actualise by relying solely on the skills and plants existing in the district. For example, several Prato final firms tried to deal with the drop in demand for carded fabrics by extending the range of items offered, i.e., starting to manufacture linen, viscose, silk or cotton fabrics, in addition to the usual woollen products. Other final firms tried to face the new market conditions and regain profitability by purchasing standard components (especially yarns) produced in countries with lower labour costs. Therefore, the demand for new (to the district firms) inputs, on the one hand, and for low-cost components, on the other, induced a new kind of exit: exit outside the local markets, in the form of acquisition of components manufactured outside the district, and often abroad.\textsuperscript{2}

At this point, one might ask what happened to voice in the form of collective bargaining in the local supplier relations established since 1959. As we have seen, during the crisis many local phase firms had to shut down, under the pressure of both external and internal competition. Furthermore, as a reaction to the crisis, new products and machinery were introduced by more and more district firms. Thus the variety of supplier relations increased not only among the different phases, but also within each specialised activity. For example, in weaving itself, once a phase in which the operations and the type of firms were rather similar within the district, the introduction of new fibres and technologies produced substantial differences in the various supplier relations. In effect, first the cut-throat competition within some district markets (and hence massive exit), and then the growing differentiation within and between those markets, diminished the volume of collective voice in supplier relations. Significantly, at the very beginning of the crisis, in 1985, the Prato Industrialists’ Association, representing final firms, cancelled the collective agreement on weaving prices recently signed together with the local Artisans’ Associations, representing phase firms.

Only in 1987 was it possible to reach a new collective agreement on rates to be paid for weaving operations subcontracted locally. This agreement contained a new clause that, in some specific cases, admitted the possibility of single firms negotiating prices lower than

\textsuperscript{1} The number of businesses in producer services in the Prato district grew during the 1980s, rising from about 1,000 units, to more than 2,600 (ISTAT, Census of Industry and Commerce, 1981, 1991).

\textsuperscript{2} Imports of wool yarns in the Prato district, for example, doubled from 1985 to 1989, rising from 2,200 tonnes to 4,500 tonnes (ISTAT data). Moreover, from a survey carried out in 1993 on a sample of 319 Prato firms, it was found that approximately 50% of final firms had recently established supplier relations (although for small quantities) with firms located in northern Italy, whereas 60% of the same final firms acquired yarns made outside the district (IRIS, 1994).
the collectively agreed ones. Such a clause is important because it reveals a need for renewal in the collective bargaining of local supplier relations. The carded wool crises, with all the changes that had been brought about (reduction in the number of local phase firms, product differentiation, technical innovation, spreading of teams based on financial ties) rendered the complex structure of collectively agreed prices that had evolved during the previous decades more and more inadequate. The price flexibility introduced by the 1987 collective agreement clause, however, was still insufficient in the new circumstances; therefore, the collectively determined rates continued to be largely ignored.

But while massive exit diminished the effectiveness of the Artisans’ collective voice in local supplier relations, what happened to the expression of individual voice which, as we saw earlier, was characteristic of the mode of coordinating the division of labour within the district? Apart from relations within already established teams, the pressure of competition pushed district firms straight to exit. They began to rush, almost automatically, at the slightest difference in price or quality of the component subcontracted, from one local phase firm to another, and in some cases even to firms located outside the district. In such circumstances, there was no time to develop a dialogue, and hence voice, between business partners in order to restore satisfactory relations. Yet such a dialogue was necessary for implementation of the product and process innovations required to overcome the crisis. As a partial response to those difficulties, teams based on financial ties began to play a greater role. Supplier relations became more stable and richer in communication (based on voice), as a consequence of joint participation (through a share of the capital or loans) in the new investments. Financial connection *per se* did not ensure the degree of coordination attained by the already existing teams based on reputation. Nevertheless, it constituted a credible commitment that supplier relations would be continued, at least until the investments had produced the expected profits.\(^1\)

By virtue of the innovations introduced in the district mainly by firms organised in teams based both on reputation and on financial ties, within a few years the carded wool crisis was overcome. From the early 1990s onwards, Prato exports once more began to increase, and employment in local industry stabilised, despite the fact that restructuring continued, as is testified by the persistent reduction in the number of firms, especially smaller businesses, involved in the various phases of the textile production process.\(^2\) The situation, therefore, was ripe for the resurgence of collective voice in local phase markets.

First, the 1991 Collective Agreement on weaving rates extended the liberalisation of pricing introduced in 1987. The so-called ‘contractual autonomy clause’ allowed firms to enter into direct contracts that fixed prices differing from the collectively agreed prices, on condition that the direct contract was written down and notice of it was given to one of the local Artisans’ Associations. The contents of collective bargaining thus underwent a gradual change, shifting the focus from prices to rules of behaviour that both parties in the supplier relation were required to comply with.\(^3\) The renewal of this form of collective voice was completed in 1997, when the local Industrialists’ and Artisans’ Associations...
signed the so-called 'Gentlemen’s Agreement'. This agreement stated that prices of subcontracted operations were freely negotiable by the parties concerned, but that the conditions of supplier relations must result from a written contract, which must also contain technical specifications so as to reduce production flaws.

In addition to this transformation of the content of collective bargaining, the industrial changes induced by the crisis contributed to the rise of a new form of collective voice in local phase markets. Differentiation and above all up-grading of the products manufactured in the renewed district had led to an increased need for information exchange and effective communication between final firms, which designed and sold the goods of the new collections, and phase firms, which produced them. Consequently, the local Industrialists’ Association organised regular meetings among the representatives of the differently specialised district firms, including the various types of final firms (such as fabric manufacturers, yarn manufacturers, knitwear manufacturers) and phase firms (spinning firms, weaving firms, finishing firms and so on). Such meetings brought a number of benefits, for example, helping phase firms to plan their production, providing advance knowledge of the fashion trends for the coming season, offering information concerning the advantages and disadvantages of introducing new machinery, or the specific difficulties involved in meeting a particular quality standard.

The above account outlines the recuperation mechanisms that were activated in response to the deterioration of local supplier relations engendered by the mid-1980s crisis. As in salaried labour relations, the immediate reaction to the difficulties was massive exit, first within, but then also out of several local phase markets. Unlike labour relations, this hasty exit almost erased the previously established forms of voice. However, direct communication is indispensable for coordinating the division of labour within the district. This was particularly true since substantial innovations were required to restore performance. Fortunately, the presence of teams of enterprises based on investment in reputation, and the formation of new teams based on financial ties ensured that in an increasing number of supplier relations the level of voice was sufficient to produce a ‘change from within’ (Hirschman, 1970, p. 83), and hence the adaptations needed to regain competitiveness. Once some firms had found their way out of the crisis, proximity, both geographical and cultural, made it relatively easy for other district firms to emulate their procedures. Thus, the existence of team organisations and the process of imitation typical of the district milieu favoured the restructuring of many of its firms, and subsequently the recovery of local system. But, with the recovery, there also came the resurgence of new forms of voice.

In sum, at first, the crisis disrupted the complex and delicate reinforcing effect between the various options of exit and voice that had previously ensured satisfactory supplier relations and continual development: during the most acute period of the crisis, massive exit undercut voice. But at the beginning of recovery, the cooperation between the two different mechanisms of recuperation was revitalised, with the rise of new forms of voice. In particular, concerted collective action among the representatives of both parties in local supplier relations was continued on a new basis. However, as stated in the preliminaries of the 1997 collective agreement, its purpose was, once again, to establish rules of behaviour so that ‘local firms operate according to criteria based on reciprocal correctness and consideration, in order to guarantee the smooth development of the Prato system’.

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1 Agreement on procedures and initiatives to improve relations between commissioning firms and subcontractors in the Prato textile district, signed by the representative organisations on 29 September 1997.
2 See Prato industriale, Suppl. no. 16 and no. 43, 1995; no. 24, 1996; no. 26, 1997.
4.3 Loyalty and financial commitment activating voice in teams of enterprises
We saw earlier that firms organised in teams usually achieved better performance, owing to their closer coordination and more substantial innovation. Even in the years of continual development, some of them had already diversified their products from those typical of the majority of the other local firms. Consequently, during the carded wool crisis, their performance either declined less than was the case with other firms, or even remained good. This circumstance could not pass unnoticed in the district, where proximity meant that the spread of information and, to some extent, also the possibility of imitation, were relatively easy. Therefore, some firms seeking to overcome the crisis began to attempt either to become members of an already established team, or to form a new team. Building a team based on reputation, however, needed time, whereas the crisis required a quick reaction to stop cumulative deterioration. Moreover, the reaction involved considerable new investments, both by final firms and phase firms. Since such investments were innovative, they involved a high risk, particularly for phase firms which, owing to their specialisation, had little contact with final markets.

As a result, the need for innovation and more conscious coordination on the one hand, and the time pressure, on the other, induced the formation of teams based mainly on financial ties. This explains why the development of team relations and restructuring during the crisis years was crucial for implementing the industrial changes (in products, processes, materials, specialised inputs, etc.), which brought about the recovery.

At this point, a question of interest is whether the crisis influenced the mode of response to discontent in the existing teams and in local supplier relations in general. Clearly, the massive exit that occurred in local phase markets also increased the threat of exit within already established teams. In contrast to normal supplier relations, however, the heightened competition within teams increased the volume of voice among their members. Loyalty created sufficient commitment to promote the intensification of communication and efforts directed towards finding a solution to the new problems. As far as local supplier relations are concerned, a similar sufficient commitment designed to delay over-rapid exit was achieved by the development of financial ties. Such a commitment was necessary to ensure the level of investments and coordination required to introduce substantial process and product innovations.

Consequently, with the spread of teams based on financial ties, the scope of voice as a mode of response to difficulties increased in many local supplier relations. But did this lead to suppression or excessive restriction of the possibility of exit? The answer is negative, since in teams based on financial ties, similarly to those based on reputation, supplier relations were not exclusive. This means that each final firm taking part in a team established preferential relations with a small number of phase firms, but also further supplier relations with other subcontractors. Reciprocally, each phase firm had a few final firms with which to entertain long-term preferential relations, but also several other occasional customers. This is an important feature of district teams. In fact, even if the acceleration of the pace of economic change caused a shift towards more conscious coordination among the differently specialised firms, an excessive cost of exit would also reduce the effectiveness of voice mechanisms. If individual exit is too difficult, the threat of exit is not credible, and hence it cannot be used to reinforce voice in order to obtain the desired improvements. Moreover, some access to exit is helpful to preserve flexibility,

1 It is worth noting that the greater product and process differentiation within the district also augmented the specificity of new investments; this, in turn, further increased the risk for phase firms.
which is a typical advantage of district firms. This peculiarity, according to which commitment among members makes exit unattractive yet still a real possibility, results from the fact that district teams are embedded in local phase markets, which reduces the cost of finding a substitute if deterioration persists. Hence, the smooth functioning of such markets is still important for the performance of firms organised in teams.

5. Conclusion

It is universally recognised that the concept of industrial district as a living and vibrant form of economic organisation was introduced by Alfred Marshall.¹ It is therefore hardly surprising, as Loasby (1998) pointed out, that such a concept forms a perfect fit with Marshall’s theory of economic development based on the twofold process of differentiation and integration. In particular, since industrial districts are characterised by the widespread presence of local markets for various specialised activities, and also display the special feature of close geographic and cultural proximity of agents and firms, it becomes clear that evolution of the local system depends both on the forces of competition and, at the same time, on the conscious action of subjects directly and indirectly involved in the productive process. ‘Semi-automatic’ is the term Marshall uses to define this mode of coordination of the evolutionary process, typical of an industrial district. It is partly automatic in that it results from the aggregate effects of individual competition in local markets, but this comes about in combination with elements of semi-deliberate type of action that is performed by force of habit, deriving mainly from the localised ‘thickening’ of interpersonal and business-to-business relations. For this ‘thickening’ creates an environment that favours direct contact and communication among subjects, both within each specialised activity and also between different, but interconnected, specialisations. Thus, elements of conscious action intervene in the process of competition, but without actually replacing it, in contrast to the situation observed in vertical integration coordination.

The role of deliberate intervention is of considerable importance because it helps give a direction to the evolutionary process, as it enables the latter to achieve a genuine development of the potential contained in the system. If the forces of competition are left to operate in a vacuum, then development may remain latent, as pointed out by Tiziano Raffaelli.² On its own, competition could lead to very short-sighted selection or could trigger aggregate effects that might be harmful to the long-term evolution of the overall system. The acknowledgement that the process of economic evolution depends quite significantly on conscious human action constitutes one of the major distinctions between Alfred Marshall’s thought and neo-Darwinian biology (Loasby, 1998).³

This outline, although brief, of Marshall’s theory of economic development, highlights the way in which his approach is founded on a dialectical relation between two opposite

²See Raffaelli (2003).
³As underlined by Tiziano Raffaelli (2003), the model of the functioning of the human brain elaborated by Alfred Marshall is illuminating for an understanding of Marshall’s theory of industrial organisation and, more generally, of economic development. In effect, Marshall argued that the brain functions partly through automatic responses to known external stimuli, and partly through deliberate choices in response to new unsatisfactory situations. Only in the latter case does the higher portion of the brain enter into action, with its capacity to imagine the consequences of different possible lines of action, and choosing that which is imagined to be capable of solving the new problem. On Alfred Marshall’s model of the mind, see Raffaelli (1990, pp. 1–20).
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principles: automatic versus deliberate action, the latter deriving from the human ability to imagine the consequences of a certain course of events. The pair of opposites ‘automatic action/deliberate action’ which according to Marshall presides over district dynamics (and more generally over selection of the various alternatives) can thus clearly be seen to bear a resemblance to a phenomenon on which we have dwelt in depth in this paper: namely, the ‘exit/voice’ polarity introduced by Hirschman. In Hirschman’s view, this polarity characterises the ways in which human agents respond to unsatisfactory situations, and thus could ultimately provide an explanation of social evolution. Note, in this perspective, that both in Hirschman and Marshall, human behaviour is not assumed to be maximising. Faced with unsatisfactory situations, human beings may respond by resorting to the automatic mechanism of the market (exit) but, equally, by engaging in direct communication (individual or collective) designed to change from within rather than abandon the deteriorated relationship.

After this premise, the fruitfulness of applying the Hirschmanian ‘exit–voice’ polarity to the industrial district can more readily be appreciated. It helps to render explicit the rationale underlying the regular functioning of district organisation, and it also gives an useful insight into its strengths as well as its possible weaknesses. More specifically, as emerged from the analysis of long-term development of the Prato district, the competitive advantage of the district can be maintained over time only if local development results jointly from the operation of market mechanisms (extensive availability of exit) and from deliberate and semi-deliberate human action (spread of individual and collective voice by virtue of a complex system of formal and informal institutions that facilitate communication among individuals and among groups). In the absence of external shocks, the various available forms of exit and voice not only interact positively with one another in the framework of each main local economic relation, but they also enhance interaction between the various different relations, thereby guaranteeing the maintenance of a good performance in each part of the system. Such a phenomenon, in turn, favours the progressive division of labour (birth of new firms) and thus the production of variety within the district. At the same time, however, it also promotes increasingly complex forms of coordination (formation of new local markets and teams of firms, collective bargaining of supplier relations). Correct functioning of the process of selecting alternatives capable of leading to long-term local development is thereby assured.

The exit–voice approach applied to the post-World War II development of the Prato industrial district also sheds light on the specific problems affecting district organisations when the latter are faced with important change in external context. Consider, for example, the type of change embodied by the loss of a substantial portion of market outlets. The case examined in this paper shows that such a change has the immediate effect of reversing the positive interaction between exit and voice (there is a shift from the reinforcement model to the see-sawing effect) in one or more parts of the local system, with direct and indirect consequences on the other parts. Generally, it is the forms of voice that tend to disappear, for several reasons: as external competition becomes fiercer, little time is available for voice to produce positive effects, and furthermore, the institutional (formal and informal) modes through which voice can be expressed no longer furnish an adequate response to the new requirements. This means that of the two adjustment mechanisms usually available, only one is left in operation, namely the market selection mechanism. However, shorn of any conscious direction, the market mechanism may give

1 See Raffaelli (1995, p. 204).
rise to the massive exit of workers and firms, many of whom could have adapted to the new circumstances, if only they had the time and the necessary information to adjust. Thus cut-throat competition can wreak havoc in district markets, destabilising the entire system and accelerating its decline rather than its revival,¹ unless a new expression of voice is rapidly found, i.e., a guiding thread that consciously addresses the process of adaptation and revival of the entire local system.

The case examined here also shows that, in order to introduce the innovations (not only in product and process, but also organisational and institutional innovation) that are indispensable for the reproduction of the district as a living vibrant system after a period of extraordinary change, it is not sufficient merely to rely on the presence of strong firms that enjoy a good reputation. While such firms may be capable of inducing their local partners to introduce the required innovation, political action in the broad sense is also necessary. Only through political action can a sense of identity and commitment to local development be re-created; furthermore, this also stimulates institutional inventiveness to facilitate the expression of new forms of voice, more suited to regulating the transformation, and subsequently also the new developmental cycle.²

Finally, the above reflections on the reproduction of industrial districts’ competitive advantage during periods of regular evolution, and on the difficulties they face in responding to major changes in the external context, have interesting implications when seeking to devise policies to sustain the development of industrial districts. But this line of investigation goes beyond the scope of this paper, and must await future research.

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¹ Loasby, in this respect, speaks of the pathology of industrial districts (Loasby, 1998, p. 80).
² On local concerted collective action as a structure of governance of industrial districts, see Dei Ottati (2002).
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