* INTRODUCTION *

The Political Economy of Small-Scale Industrialization in Twentieth-Century Italy

Trust, Networks, and the Boundaries of the Firm

Even though social scientists began to discuss the wonders and pitfalls of Italy's small-scale capitalism only in the late 1970s, the development of specialized clusters of firms constituted one of the basic traits of the country's heterogeneous economic "miracle" of the 1950s and 1960s, and some of these industrial and artisanal experiences dated back decades and occasionally even centuries. By the 1970s Italy's industrial sector exhibited a distinctive pattern of economic dispersion and spatial concentration. The average Italian manufacturing firm was much smaller than its French or German counterparts, but at the same time it was more likely to be a node in a local network in which actors specialized in different stages of the production and commercialization processes of specific items that were exported throughout the world.

Variably called industrial districts, clusters, or area systems, these localized networks not only proved an extremely vital component of Italy's economy but also presented scholars with the opportunity to reconsider a variety of important theoretical questions. The theoretical relevance of the industrial districts of northern Italy (but also of other parts of the world) stems primarily from the challenges they pose to two long-cherished assumptions about the direction and nature of modern capitalism. First, the persisting success of small-scale firms belies the predictions of a variety of intellectual traditions, which viewed the large integrated corporation as the inevitable outcome of economic evolution. Second, the difficulty of disentangling economic action from other kinds of pursuits that is characteristic of Italy's small-scale capitalism questions the postulated emergence of an economic sphere irreducible to other forms of action.

Of the interpretative traditions that have argued for the ultimate superiority of large-scale enterprise in modern capitalism, the most influential is associated with Alfred Chandler and Oliver Williamson. Chandler viewed the emergence of the large multidivisional corporation

as a response to the challenge of reducing transaction costs in sectors where high asset specificity made firms particularly liable to contractual problems.[1] In order to solve these problems, companies extended the size and scope of their activities by internalizing transactions that had previously been carried out in the market. Among the economists, Oliver Williamson has maintained that, if we take the transaction as the analytical unit, whether it will be executed within a hierarchical setting (a firm) or in the market depends on the relative efficiency of each mode.[2] Such efficiency depends in turn on uncertainty and the likelihood of opportunistic behaviors. The higher these two variables, the more efficient hierarchical control within a firm. Finally, uncertainty and opportunism become more likely threats as investments become more transaction specific, because the assets' owners can profit from their information advantage.[3] It is worth noting that in Chandler's and Williamson's approach, political and cultural factors remain exogenous to the theory. If left unbridled, market competition selects for the institutions capable of manipulating the incentives and sanctions that make opportunism less likely, but such institutions emerge out of a strictly economic kind of rationality.

Many scholars have challenged the linear narrative proposed by transaction-cost economics. One of the most important contributions for historical studies has been Charles Sabel's and Jonathan Zeitlin's early work on the survival of communities of small independent producers in the era of mass production, an evolutionary bifurcation that proved fruitful after the crisis of Fordism and the success of "flexible

[1] Alfred D. Chandler Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass., 1977).

[2] Oliver Williamson, *Markets and Hierarchies: Analysis and Antitrust Implications* (New York, 1975).

[3] Some economists have attempted to move beyond the dichotomy between market and hierarchy by analyzing the role of coalitions and clans and by developing the notion of relational contracting. For an approach that applies the insights of transaction-cost economics to an intermediate governance mode between market and hierarchy, see William Ouchi, "Markets, Bureaucracies, and Clans," *Administrative Science Quarterly* 25 (1980): 124–41. For relational contracting, see Oliver Williamson, *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting* (New York, 1985). For a historical argument calling for the necessity to move beyond the dichotomy of markets and hierarchies, and for a reevaluation of U.S. business history in this light, see Naomi Lamoreaux, Daniel Raff, and Peter Temin, "Beyond Markets and Hierarchies: Toward a New Synthesis of American Business History," *American Historical Review* 108 (2003): 404–33.

specialization" over the last two or three decades.[4] The resistance these islands of craftsmen posed to the threats of proletarianization and mass production was predicated upon mutual trust and forms of "local corporatism," as well as on persisting diversification of market demand. Community and trust created governance structures distinct both from the atomistic world of the free market and from the hierarchical control of large corporations. Moreover, the governance site here shifts from purely economic institutions to social and cultural ties.

This conception paralleled that centered on the notion of the industrial district (ID), developed mostly by Italian economists and sociologists in the 1970s and 1980s. Building on some of Marshall's insights, Giacomo Becattini viewed the ID, rather than the industrial sector, as the primary unit of analysis of industrial economics.[5] Defined as networks of small producers in a localized area who share the benefits of external economies and solidarity ties without neglecting the efficiencies linked to competition, IDs are first of all historically rooted communities built on mutual trust among local agents. In the Italian context, IDs are characteristic of what Arnaldo Bagnasco called the Third Italy, the areas of the central and northern parts of the country that are located neither in the northwestern "industrial triangle" (Turin-Milan-Genoa) nor in the underdeveloped regions of the south.[6] Since these pioneering studies, the Italian industrial districts have come to constitute some of the most powerful counterexamples to the once-dominant expectation that small-scale firms would not withstand the competitive pressures of modern capitalism.

But large-scale corporations were expected to prevail not only on account of their higher economic efficiency but also because they epitomized one of modernity's distinctive traits—the emergence of an economic sphere endowed with its irreducible logic increasingly divorced from family ties, political affiliations, and other more traditional pursuits. The notion of homo economicus, on which the abstrac-

[4] Charles Sabel and Jonathan Zeitlin, "Historical Alternatives to Mass Production: Politics, Markets, and Technology in Nineteenth-Century Industrialization," *Past and Present* 108 (1985): 133–76.

[5] For an exhaustive theoretical and empirical survey, see Giacomo Becattini, ed., *Mercato e Forze Locali: Il Distretto Industriale* (Bologna, 1987). For a genealogy of the concept, see Sebastiano Brusco, "The Idea of the Industrial District: Its Genesis," in Pyke, Becattini, and Sengenberger, *Industrial Districts*, 10–19.

[6] Arnaldo Bagnasco, *Tre Italie: La Problematica Territoriale dello Sviluppo Italiano* (Bologna, 1977).

tions of neoclassical economics rested, would have been unthinkable without the belief in a separate economic logic. But classical sociology was also strongly implicated in the perpetuation of this narrative of separation, which sustains Ferdinand Tönnies' shift from Gemeinschaft to Gesellschaft, as well as Max Weber's theorization of "economic action" as a novel creation of modern capitalism and as the basic framework for the "iron cage," just to mention two particularly influential conceptions. Whereas traditional societies thrived in the creation of hybrid institutions encompassing different logics, such as family firms or patrimonial political power, the very hallmark of modern societies was the creation of distinct structures and realms of action, among which the economic sphere was often given a foundational role for society as a whole.

Now most of the firms that populate Italy's industrial districts are family businesses that entertain complex relationships with their environs and with political power, especially local governments. As Sylvia Yanagisako notices in her ethnographic study of Lombard silk entrepreneurial families, Italian small-scale firms are hybrid entities that combine different rationalities and dispositions—familial affection, the pursuit of profit, and political loyalties, just to mention a few.[7] Therefore, these characteristics have attracted the attention of those scholars who are committed to challenging the economic and sociological narratives of modernity founded on the divorce between the economic sphere and other forms of action. Two concepts have been particularly crucial to this agenda—embeddedness and social capital. Before examining these two notions in some detail, it is worth noting the strong link between the critique of the linear evolutionary narratives culminating with the large-scale corporation and the challenge to the narrative of separation of economic action from other pursuits. Both critiques point to a nondeterministic world of great organizational diversity, where different paths and experiences may coexist indefinitely. This conception goes well beyond the framework of modernization theories, which argued for the existence of different models of capitalism and political governance but understood societies (above all nation-states) as functionally integrated entities and placed them at different stages of development. At least potentially, the two critiques question deeply entrenched analytical foci (the nation-state, the region,

[7] Sylvia Junko Yanagisako, *Producing Culture and Capital: Family Firms in Italy* (Princeton, 2002).

the locality) and methodologies (the search for the nomothetic model and the primacy of economic structure, for example).

The concept that has been most influential in debunking the notion of homo economicus while rejuvenating economic sociology is "embeddedness."[8] This notion, which had already been employed by Karl Polanyi and some economic anthropologists, was refined by Mark Granovetter in the 1980s and quickly adopted by many students of the Italian industrial districts.[9] Granovetter set out to address the fundamental Hobbesian question of how social and economic order is possible in a world of self-interested individuals.[10] The answer did not lie in the magic of market mechanisms, the coercion of large-scale organizations, or in all-powerful cultural codes. Instead, Granovetter argued, economic order is possible because individuals embed their economic actions in networks of multifunctional interpersonal relations that may produce trust and cooperation.

Applied to the problem of the persisting organizational diversity of modern capitalism, Granovetter's insight leads to an explanation that is distinct from both transaction-cost economics and communitarian approaches. In Williamson's account, trust "lubricates" economic transactions by saving transaction costs. As information becomes more complex and specific, this saving strategy is carried out most efficiently *within* the boundaries of the firm. Granovetter noticed that the notion of trust proposed by transaction-cost economists is both functionalist and evolutionist. Institutions emerge in order to solve coordination and monitoring problems, and market competition selects the most efficient solution. Moreover, this conception is founded on an atomized view of economic actors, who have little choice but to relinquish control and gage the consequences of their individual actions vis-à-vis the inexorable logic of institutional change.

[8] For a collection of some "classics" of economic sociology, and for an introduction to the discipline, see Mark Granovetter and Richard Swedberg, eds., *The Sociology of Economic Life* (Boulder, 1992); see also Neil J. Smelser and Richard Swedberg, eds., *The Handbook of Economic Sociology* (Princeton, 1994).

[9] For a review of the concept of embeddedness and its impact, see Bernard Barber, "All Economies Are Embedded: The Career of a Concept and Beyond," *Social Research* 62 (1995): 387–98. See also Richard Swedberg, "New Economic Sociology: What Has Been Accomplished, What Is Ahead?" *Acta Sociologica* 40 (1997): 161–82.

[10] Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology* 91 (1985): 481–510.

The early literature on industrial districts, by contrast, viewed trust as a lubricant of social relations predicated on long-lasting cultural ties.[11] In this context, communitarian norms replace hierarchical control and allow transactions *across* firms to develop smoothly. The district/community itself performs the functions of coordination typical of large organizations. As a consequence, flexible networks of small firms can achieve a high level of efficiency in unstable markets. Theories based on norms and solidarity, however, naturalize trust by taking its social and cultural determinants (the family, the ethnic group, the community, etc.) for granted. Moreover, the perfectly socialized actors who populate these scenarios behave in ways paradoxically similar to the atomized agents of transaction-cost economics: their rationality is devoid of any agency outside of the normative system of their group.

Granovetter has proposed a way out of the dichotomy between atomized and socially deterministic notions of trust ("undersocialized" and "oversocialized," in his terminology). "The embeddedness approach to the problem of trust and order in economic life," Granovetter writes, "threads its way between the oversocialized approach of generalized morality and the undersocialized one of impersonal, institutional arrangements by following and analyzing concrete patterns of social relations."[12] This approach dovetails with the evidence offered by the development of the jewelry towns in at least two ways. First, by viewing networks as governance modes, the embeddedness thesis acknowledges that actors can inhabit several networks at once and use this multiplicity of roles to challenge as well as uphold trust and social order. In other words, Granovetter incorporates in his model the notion that social ties are the locus of both trust and malfeasance schemes. If trust is fully institutionalized in predictable routines or internalized through norms of behavior, it loses its distinctiveness by turning into coercion or compulsion. Second, the embeddedness approach to eco-

[11] Revealingly, in his discussion of trust Putnam uses Williamson's metaphor as well, transferring it from the world of economic transactions to that of social ties: "A society that relies on generalized reciprocity is more efficient than a distrustful society, for the same reason that money is more efficient than barter. Trust lubricates social life." Robert Putnam, "The Prosperous Community: Social Capital and Private Life," *American Prospect* 13 (1993): 37. For two useful overviews of sociological and economic conceptions of trust, see at least Diego Gambetta, ed., *Trust: Making and Breaking Co-operative Relations* (Oxford, 1988); and Luis Roniger, *Towards a Comparative Sociology of Trust in Modern Societies* (Messina, 1992).

[12] Granovetter, "Economic Action," 491.

nomic action makes the boundaries of the firm dependent on conflict and historical contingency, rather than on efficiency or timeless morality. This approach predicts that, ceteris paribus, pressures towards vertical integration are stronger where an extensive network of interpersonal relations is lacking. Conversely, when economic action is strongly embedded in social relations, coordination may be achieved without creating large-scale companies.

Despite its obvious merits, however, the notion that economic action is structurally embedded in networks of relations does not address the often-contradictory meanings that actors attribute to the relations that bind them. Granovetter's networks of interpersonal relations penetrate the social body unevenly, thereby introducing a stochastic element to the central question of how order is achieved in a particular historical setting, but these networks function almost as mechanical devices—albeit flexible and occasionally faulty ones. They process inputs (the actors' strategic behaviors and their information about each other and their activities) and produce an output (trust and social order). In other words, not unlike the approaches it challenges, structural embeddedness treats trust as a homogenous and relatively unproblematic "substance" and does not acknowledge that order is an inherently normative notion that is embedded in the perspective of a "center," be it the power structure of the state or a set of privileged institutions in civil society.

My contention here is that there is no order and trust in the abstract—that is, outside the actors' multiple and conflicting perspectives. In fact, evidence from the jewelry towns challenges the very dichotomy of order and disorder. One of the distinctive traits of these experiences is the impossibility of identifying a moral center, a privileged pivot from which to spin the actors' stories. Order and disorder coexisted within the same social world, and their meanings changed with the actors' shifting perspectives. Was gold smuggling, for example, a sign of anomie and disorder or an indication of the resilience of delicate—and therefore all the more precious—social ties? The towns' key traders embraced both interpretations of their actions, telling one version of the story to the state authorities and quite a different one to their subcontractors.

Granovetter's original focus on social structure and structural embeddedness needs to be expanded and refined in order to increase its analytical usefulness to social and economic historians. In particular, we need to bring into the picture political action and cultural conflict

in order to explore the historical development of social networks as well as the origins of trust and its contested meanings. In sum, as Paul DiMaggio and others have argued, structural embeddedness needs to be complemented by political and cultural embeddedness.[13] One of the limitations of structural embeddedness is its difficulty in explaining how the networks of interpersonal relations in which economic action is embedded originate and develop. What are these relations made of? What do "trust" and "mistrust" mean and to whom?

An answer to these questions has been proposed by sociologists committed to pluralizing the meaning of embeddedness. Paul DiMaggio and Sharon Zukin view structural embeddedness as only one of several processes through which economic action is socially constructed.[14] To Granovetter's original form, they add "political embeddedness," or the realization that economic action is inseparable from struggles over power, resources, and opportunities; "cultural embeddedness," or the fact that ideologies, beliefs, and symbolic constructs inflect economic life and set limits to narrow interpretations of economic rationality; and "cognitive embeddedness," or the psychological underpinnings of economic behaviors as they emerge at the subjective and collective levels. One of the implications of this plural understanding of embeddedness is that trust ceases to be a homogenous substance without a history and becomes a contested set of practices embedded in the actors' multiple perspectives.

Many of the problems associated with the notion of embeddedness stem from the distinction, borrowed from Weberian thought and classical sociology more generally, between economic action and social structure. Even though Granovetter explicitly criticizes social determinism, the distinction between economic choice on the one hand and social (but also political or cultural) constraints and opportunities on the other remains an underdeveloped and problematic assumption of the embeddedness approach. It is at this theoretical juncture that the notion of social capital may be useful. This concept has been used in a wide variety of ways, not all productive. Therefore, I will briefly re-

[13] Paul DiMaggio, "Cultural Aspects of Economic Action and Organization," in Roger Friedland and A. F. Robertson, eds., *Beyond the Marketplace: Rethinking Economy and Society* (New York, 1990), 113–36.

[14] Sharon Zukin and Paul DiMaggio, eds., *Structures of Capital: The Social Organization of the Economy* (New York, 1990), introduction, 1–36. See also David Dequech, "Cognitive and Cultural Embeddedness: Combining Institutional Economics and Economic Sociology," *Journal of Economic Issues* 37 (2003): 461–70.

view some of the most influential approaches in light of the particular definition that I will employ in this study.[15]

The current history of the notion of social capital started in the 1970s, when Pierre Bourdieu discussed it alongside economic, cultural, and symbolic capital without, however, giving it much prominence. Bourdieu defined social capital as "the aggregate of the actual or potential resources that are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition . . . which provide each of its members with the backing of collectively owned capital."[16] Bourdieu's explanandum here is above all social inequality, and he stressed the ways in which the fungibility of different kinds of capital reinforces and legitimizes patterns of accumulation, with the explicit assumption that economic capital must be given a primary and foundational role.

We can contrast this definition with that adopted around the same time by James Coleman. Like Bourdieu, Coleman was interested in relating different kinds of capital, but his approach lay squarely within the confines of rational choice theory. He presented social capital as a crucial factor in the attainment of human capital, defined as the kinds of educational credentials in which individuals and families are willing to invest in their rational expectation of future rates of return.[17] Coleman argued that the excessive individualism of human capital theory (introduced in the 1960s by economists Theodore Schultz and Gary Becker) needed to be tempered by the realization that motivations and opportunities for learning are always embedded in a social context. In a highly controversial example, Coleman maintained that kids in Catholic schools perform better than those in public schools because of the networks that link parents, teachers, and students to each other and to larger organizations in religious institutions. By investing in the creation and nurturing of social networks (for example informal ties

[15] For a more complete critique and literature review, see Dario Gaggio, "Do Historians Need Social Capital?" *Social History* 29 (2004): 499–513.

[16] Pierre Bourdieu, "Forms of Capital," in John Richardson, ed., *Handbook of Theory and Research in the Sociology of Education* (New York, 1985), 249. In French, see Pierre Bourdieu, "Le Capital Social: Notes Provisoires," *Actes de la Recherche en Sciences Sociales* 31 (1980): 2–3.

[17] James Coleman, "Social Capital in the Creation of Human Capital," *American Journal of Sociology*, 94/Supplement (1988): S95–S120. Coleman and Bourdieu collaborated in the 1980s. The fruit of this collaboration was Pierre Bourdieu and James Coleman, *Social Theory for a Changing Society* (Oxford, 1991), which, however, does not discuss social capital.

among parents in a school setting), families and individuals may enhance their probability of future success. Whereas Bourdieu was mostly interested in relating different forms of capital to the perpetuation of social distinction and inequality, Coleman stressed the potential benefits that social actors—qua individuals choosing under conditions of bounded rationality—can reap from the fungibility of human and social capital.[18]

Much of the recent popularity of social capital, however, dates to the descent on Italy of Robert Putnam, who spent most the 1980s in Italy studying the outcome of the devolution of several government functions to the country's twenty regions at the beginning of the previous decade.[19] There he gathered an impressive array of quantitative and qualitative evidence on the relationships between political performance, grassroots participation in voluntary associations, and economic performance. In the northern regions of the country Putnam found confirmation of the idea that a strong civil society is good both for democracy and for the economy. By contrast, in the south he was confronted with citizens' passivity and isolation, accompanied by political ineffectiveness and economic backwardness. Northerners seemed to have access to social assets (trust, norms of reciprocity, and networks of interpersonal relations) that were sorely lacking in the south. With what has proved to be a stroke of academic genius, Putnam chose to call these assets *social capital*. Thus, a classic political science project (the cross-sectional assessment of participation in voluntary associations and political performance in the wake of an institutional reform) managed to connect the traditional concerns of sociology (the origins and consequences of sociability) to some of the hottest research agendas in economics (the production of public goods and its relationships with economic development).

Not content with this ambitious argument, Putnam proceeded to trace the historical roots of Italy's north-south divide, finding them in the Middle Ages, when the communal institutions of the northern city-states contrasted with the centralizing monarchy of the southern Norman kingdom. Thus, Putnam not only challenged established disciplinary boundaries; he also broke new methodological ground by combining cross-sectional and historical analysis. Famously, Putnam

[18] For a systematic treatment of social capital within Coleman's version of rational choice theory, see James Coleman, *Foundations of Social Theory* (Cambridge, Mass., 1994).

[19] Putnam, *Making Democracy Work*.

went on to argue that many of the problems with U.S. democracy in recent years could be encapsulated by the fact that U.S. citizens now bowled alone, instead of joining clubs and leagues.[20] The increasing poverty of associational life in what Tocqueville had called a country of joiners seemed to presage a near future of social isolation, political cynicism, and declining economic prosperity. Glued to their television sets and oblivious to the pleasures and challenges of sociability, Americans were unwittingly choosing the southern Italian route.

Putnam's ideas (and the notion of social capital more generally) have been widely debated over the last ten years, and not only in academic circles. Without any claim to exhaustiveness, it might be useful to reconstruct this broad and often confusing debate around three main questions: (1) who possesses social capital; (2) how social capital is created (and destroyed); and (3) what kinds of consequences social capital (or its lack) produces.[21]

The main divide over the issue of who owns social capital lies between those who claim that collectivities can have social capital and those who regard it primarily as the property of networks of individuals. Putnam clearly belongs to the former group: In northern Italy, trust and norms of reciprocity permeate public life and make cooperation for shared goals possible. In the south, by contrast, citizens are stuck in a low-trust equilibrium that hinders or even precludes cooperation. In these scenarios, social capital is a public good that enables or constrains action by individuals and groups. It is worth noting, however, that Putnam does not break with methodological individualism, even though he does not openly embrace it either. High- and low-trust equi-

[20] Putnam first published his application of social capital to the U.S. context in a series of articles, starting with "Bowling Alone: America's Declining Social Capital," *Journal of Democracy* 61 (1995): 65–78. Five years later he proposed his thesis in book format with massive qualitative and quantitative documentation. See Robert Putnam, *Bowling Alone: Collapse and Revival of American Community* (New York, 2000).

[21] This way of framing the debate excludes the scholars who deny any role for social capital and invoke its erasure from the conceptual repertoire of the social sciences. For some influential examples of this line of argument, see Ben Fine, *Social Capital Versus Social Theory: Political Economy and Social Science at the Turn of the Millennium* (London, 2001). For a synthetic version, see Ben Fine and Francis Green, "Economics, Social Capital, and the Colonization of the Social Sciences," in Tom Schuller, Stephen Baron, and John Field, eds., *Social Capital: Critical Perspectives* (Oxford, 2000), 78–93. For a similar perspective see Stephen Smith and Jessica Kulynych, "Liberty, Equality, and . . . Social Capital?" in Scott McLean, David Schultz, and Manfred Steger, eds., *Social Capital: Critical Perspectives on Community and "Bowling Alone"* (New York, 2002), 127–46.

libriums are explained in terms of individual choices to join voluntary associations or to retreat to private life.[22] Therefore, the cumulative effect of individual choices ends up forging structures (dare I say cultures) of participation or isolation, which in turn shape actors' behaviors. Somewhat paradoxically, this is a choice-based thesis that is quite skeptical of actors' agency.

The most vocal opponent of this approach is sociologist Alejandro Portes, who prefers to view social capital as the property of individuals and networks. According to Portes, the main problem with Putnam's conception is logical circularity: "As a property of communities and nations rather than individuals, social capital is simultaneously a cause and an effect. It leads to positive outcomes, such as economic development and less crime, and its existence is inferred from the same outcomes."[23] Only by viewing social capital as the property of individuals, Portes argues, does it become possible to distinguish between social relations and the resources actors gain through them—a distinction that was present in Bourdieu's original conception. Paradoxically, in both Bourdieu's and Portes's research, this focus on individuals' resources steers clear of methodological individualism much more explicitly than Putnam's collective approach. In his study of immigrants' entrepreneurship, for example, Portes shows how actors' opportunities for the mobilization of social networks are shaped by powerful structural constraints emerging both from the entrepreneur's community of origin and from society at large.[24]

Another controversial dimension of social capital concerns its origins and sources. By conceptualizing it as a public good, Coleman and Putnam view social capital primarily as an unintentional process—as the by-product of actions pursued for goals other than its creation and nurturing. Families do not send their children to religious schools in

[22] For a very useful discussion of methodological individualism in economics and other social sciences, see Malcolm Rutherford, *Institutions in Economics: The Old and New Institutionalism* (Cambridge, 1994). From a methodological standpoint, Putnam's approach is more compatible with the new institutional economics pioneered by Oliver Williamson than with the older approach to institutional change and economic action exemplified by Thorstein Veblen, Wesley Mitchell, and John Commons.

[23] Alejandro Portes, "Social Capital: Its Origins and Applications in Modern Sociology," *Annual Review of Sociology* 24 (1998): 16.

[24] Alejandro Portes, "Economic Sociology and the Sociology of Immigration: A Conceptual Overview," in Alejandro Portes, ed., *The Economic Sociology of Immigration* (New York, 1995), 1–41.

order to weave informal networks of solidarity and reciprocity among parents and teachers, even though such networks prove crucial to educational success. By the same token, citizens do not join the Lions Club or labor unions to create the networks of participation that make democracy work, even though democratic control relies on these associations to function effectively.[25] From this perspective, social capital is the product of the invisible hand of civic interaction—an unintended consequence of countless individual actions carried out for heterogeneous reasons. The unintentional nature of social capital means that actors routinely underinvest in it, as in any other public good. In other words, this approach configures the production of social capital as something of a market failure.[26] The paradox here is that the state could not directly intervene in this realm (as it does, say, in the production of basic scientific research or other public goods) without killing the goose that lays the golden eggs—that is, an unbridled civil society. The solution proposed by Coleman was a return to primordial forms of sociability, above all the traditional nuclear family. Putnam is arguably more progressive than that, although his stress on the importance of community is not incompatible with problematic calls for cultural regeneration. A more palatable option, to which Putnam has given his blessing, is for societies to reduce economic inequality, which has been shown to correlate with the decline of trust and participation.[27]

Many scholars have criticized the conception of social capital as an unintentional process. Some commentators have argued that "unintentional social capital" is something of an oxymoron at the micro level

[25] Coleman explicitly theorized the unintentional character of social capital: "A major use of the concept of social capital depends on its being a by-product of activities engaged in for other purposes." See *Foundations of Social Theory*, 312. This emphasis on unintentionality is crucial to viewing social capital as a public good in a rational choice framework.

[26] Another way of making this point in the language of economics is by arguing that social capital is productive of externalities—that is, economic effects that are not reflected in market prices and therefore escape the rational decisions of each individual agent. For this kind of conceptualization of social capital, see Paul Collier, *Social Capital and Poverty* (Washington, D.C., 1998).

[27] For such correlation, see Eric Uslaner, *The Moral Foundations of Trust* (Cambridge, Mass., 2001). Neither Putnam nor Uslaner, however, resolves the ambiguity inherent in this correlation. Is inequality a cause or a consequence of lack of trust and social capital? Uslaner laments the effects of inequality but is also quite skeptical of state intervention. Furthermore, on the basis of this line of argument, equalizing efforts would not be carried out in the name of justice or citizenship rights but as the result of a utilitarian calculus.

of intersubjective networks. By focusing on individual strategies of accumulation and by linking social capital to patterns of mutual acquaintance and recognition, Bourdieu stressed the instrumental character that social networks assume when deployed as forms of capital. Likewise, Portes and Sensenbrenner emphasize the deliberative dimension of social capital when applied to economic behavior by defining it as "Those expectations for action within a collectivity that affect the economic goals and goal-seeking behavior of its members, even if these expectations are not oriented towards the economic sphere."[28] In other words, for these authors social relations assume a multiplicity of meanings and functions for individuals and collectivities; actors can only turn these relations into "capital" through an act of instrumental deliberation. Several scholars have also exposed the limitations of the unintentional conception of social capital at the macro level of institutional change. Coleman's and Putnam's focus on the unintentional consequences of sociability discounts the role that state agencies, the legal system, and political movements play in shaping the desirable traits of civil society.[29] In other words, Putnam's approach tends to reify the distinction between civil and political society.

As for the third broad theme, the consequences of social capital, there has been a general trend in the literature towards an increasingly nuanced assessment. In his early work Putnam, much like Coleman, focused almost exclusively on the positive effects that tight social networks have on political and economic performance, both at the micro level of interpersonal relations and at the level of the polity as a whole. In his pioneering work of the 1970s and 1980s, Mark Granovetter introduced the distinction between strong and weak ties, arguing that weak ties reveal their strength by providing actors with nonredundant information and that excessive redundancy and social closure may have

[28] Alejandro Portes and Julia Sensenbrenner, "Embeddedness and Immigration: Notes on the Social Determinants of Economic Action," *American Journal of Sociology* 98 (1993): 1321.

[29] Theda Skocpol, for example, has noticed that many of the associations extolled by Putnam in the U.S. context, such as the Parents' and Teachers' Association and the American Legion, not only emerged with the support of the federal government but also built their success on political campaigning efforts that led to the expansion of the welfare state (respectively through the Sheppard-Towner program to promote maternal and child health and the GI Bill). See Theda Skocpol, "Unravelling from Above," *American Prospect* 25 (1996): 20–25.

negative consequences.[30] Many social scientists, ranging from Mancur Olson and Ronald Burt to Alejandro Portes, have elaborated on these insights and applied them to social capital theory. The result has been to expose the "dark side" of social capital.[31] The vibrancy of social networks in civil society is as essential to economic predation by Mafia-like organizations as it is to economic cooperation among civic-minded entrepreneurs. Moreover, social cohesion can lead to the exclusion of outsiders and to the burdening of individuals and groups with conflicting and escalating expectations, with stifling implications for innovation and personal freedom. Putnam himself has recently acknowledged the negative potentialities of sociability, while trying to reserve the notion of social capital for its positive and productive dimensions.[32]

In light of this admittedly selective review, I would like to distinguish two major currents in the literature on social capital. The first current, inaugurated by Coleman and championed by Putnam, views social capital as a public good that is unintentionally produced and functionally deployed. I will criticize Putnam's arguments in more detail in the next chapter, but, in short, I believe that his understanding of social capital is of little use to historians. The second current, started by Bourdieu and exemplified by Portes among others,[33] views

[30] See Mark Granovetter, "The Strength of Weak Ties," *American Journal of Sociology* 78 (1973): 1350–80.

[31] Within a rational choice framework, the costs of sociability have been explored by Olson, *Rise and Decline*, who, however, does not employ the notion of social capital. Within network theory, much of the pioneering work has been done by Ronald Burt. See "The Contingent Value of Social Capital," *Administrative Science Quarterly* 42 (1997): 339–65, for a synthetic overview. See also Alejandro Portes and Patricia Landolt, "The Downside of Social Capital," *American Prospect* 26 (1996): 18–21.

[32] For a useful synthesis, see Michael Woolcock, "Social Capital and Economic Development: Towards a Theoretical Synthesis and Policy Framework," *Theory and Society* 27 (1998): 151–8l. According to Woolcock, there are different kinds of social capital, namely the ties that bind actors together in networks (which can be grouped under the category of embeddedness) and the ties that bridge actors across different networks and with government institutions (which endow actors with autonomy). On the basis of this distinction, Woolcock devises two matrixes, one for the micro level and the other for the macro level, which demonstrate that successful societies need high levels of both embeddedness and autonomy. Southern Italy is an example of a society that has too much embeddedness and too little autonomy.

[33] For examples of historical studies that use a notion of social capital similar to the one I recommend here, see Marjorie McIntosh, "The Diversity of Social Capital in English Communities, 1300–1640 (with a Glance at Modern Nigeria)," *Journal of Interdisciplinary History* 19 (1999): 459–90. See also Sheilagh Ogilvie, "How Does Social Capital

social capital as the property of individuals and networks, as a resource that is constructed in the arena of political deliberation, and therefore as a relational practice that can be as productive of conflict and inequalities as of order and harmony.[34] I believe that this second understanding of social capital is potentially fruitful and should be taken seriously by historians. I would argue that social capital as defined above draws attention to the need to incorporate economic action in any understanding of historical change. The notion of social capital does not necessarily reduce the social to instrumental calculation by rational agents, much as the notion of identity does not necessarily reduce cultural interaction to naturalized interpretations of gender and race.[35] From this perspective, the conceptual core of social capital is that relational networks are productive of value for their participants, but that does not mean that networks can be reduced to value-producing assets or that such value can be assessed in isolation from its historical context.[36]

This understanding of social capital as a deliberative project builds and improves on basic notions of embeddedness by restoring agency

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Affect Women? Guilds and Communities in Early Modern Germany," *American Historical Review* 109 (2004): 325–59. For a full-length treatment of these issues, see also Ogilvie's book *A Bitter Living: Women, Markets, and Social Capital in Early Modern Germany* (Oxford, 2003). For other examples of the ways historians have employed this concept, see Robert Rotberg, ed., *Patterns of Social Capital: Stability and Change in Historical Perspective* (Cambridge, 2001).

[34] My reading of the social capital literature is somewhat similar to the one proposed by Edwards and Foley, who distinguish within social capital theory a useful structural and relational core identified by Coleman and Bourdieu from a fruitless normative and sociopsychological layer added by Putnam. However, they conveniently downplay the fact that Coleman developed his approach from an explicit rational choice perspective. See Bob Edwards and Michael Foley, "Civil Society and Social Capital Beyond Putnam," *American Behavioral Scientist* 42 (1998): 124–39.

[35] See Margaret Somers, "The Narrative Constitution of Identity: A Relational and Network Approach," *Theory and Society* 23 (1994): 605–49. In a recent contribution to the debate, Somers denies the possibility of interpreting social capital from a relational and network perspective. See "Beware Trojan Horses Bearing Social Capital: How Privatization Turned *Solidarity* into a Bowling Team," in George Steinmetz, ed., *The Politics of Method in the Human Sciences: Positivism and Its Epistemological Others* (Durham, N.C., 2005), 346–411.

[36] For a similar conceptualization, see Nan Lin, *Social Capital: A Theory of Social Structure and Action* (Cambridge, 2001). Lin defines his agenda as follows: "The theory of social capital focuses on the resources embedded in one's social network and how access to and use of such resources benefits the individual's action" (55).

to historical actors and steering clear of social determinism. Networks of interpersonal relations assume complex and diverse meanings for actors, who can capitalize on family ties, the bonds of friendship, or the complicity of political affiliation to gain access to resources and opportunities. In so doing, however, they may change the context in which they move and create conflicts and sources of inequality that may be challenged by others. Furthermore, actors rarely manage to fully solve the problems posed by the hybridity of social relations, even though they may devise institutions to limit these challenges. A family business may choose to incorporate and change its legal status, for example, but this does not necessarily squeeze the affective dimension out of the enterprise. It may even draw attention to it, and with messy consequences.

This understanding of networks also challenges linear conceptions of historical change. But it is not enough to move from linear narratives to an ontology of networks, if networks remain disembedded structures that shape action in a linear fashion. In other words, networks should not be conceptualized as structures, but as processes that include firms, families, politicians, commercial agents, as well as technical routines and materials. As Michel Callon and Bruno Latour have argued, networks are hybrids of heterogeneous relations in which "actors define one another in interaction."[37] This process of definition is inherently political, in the sense that success is based on a network's ability to enroll "actors" (in the broadest sense of the term, which includes other networks) and make them speak and work for the network itself. The material underpinnings of what we traditionally call "structure" have themselves agency, while the deliberating actor of traditional narratives would go nowhere without engaging, enrolling, and translating people and materials. In this vein, I intend to follow gold and other materials around and map the ways in which these materials were transformed into a variety of local and extralocal "currencies"—money and promissory notes; trust and malfeasance; familial affection, class solidarity, and clientelistic loyalty—all of which built vulnerable and shifting relations.

If we are to take the notions of embeddedness and social capital seriously, Ronald Coase's famous question ("why do firms exist at all and

[37] Michel Callon, "Techno-economic Networks and Irreversibility," in John Law, ed., *A Sociology of Monsters* (London, 1991), 135. See also Bruno Latour, *We Have Never Been Modern* (Hemel Hempstead, 1993). For a similar perspective applied to business prac-

how are their boundaries set?") needs to be replaced with a broader focus on the boundary of the economic. If firms are themselves hybrids of heterogeneous relations endowed with different logics (as the practices of the "family firms" detailed in this book clearly show), the challenge for the historian becomes to understand how historical actors at different junctures and in different contexts distinguish what is economic from what is not, or conversely how they deliberately blur the boundaries between potentially distinct realms of action. Thanks to its heterogeneous nature and functions, trust is heavily implicated in this process of boundary making (and unmaking), but it is overly simplistic to posit a linear relationship between trust and a specific kind of economic structuring: Different *kinds* of trust have different kinds of consequences.

This conception of trust and social capital dovetails with a variety of innovative approaches that have drawn attention to the actors' ability to reflect on their individual and collective conditions in ways that are themselves productive of economic change. Geographer Michael Storper, for example, has pointed out that economic action, which must be viewed in its spatialized dimensions, often relies on interdependencies that are themselves not traded—that is, on localized conventions that frame the boundaries of what constitutes the economic realm.[38] These interdependencies are the product of processes of mutual recognition among actors who become aware of their interconnectedness as they produce, exchange, and consume in a spatial setting. In a similar vein, Sabel and Zeitlin have revised their earlier evolutionary approach to mass production and its historical alternatives by challenging the very distinction between actors and their context. Rather than viewing the actors' identities and their context as preformed categories engaged in a game of action and reaction, they advance "a conception of the actors as defining themselves strategically in the very act of constituting their context."[39] Reflexivity is crucial to this process of mutual construction, and it assumes the modes of narration: "The present is connected to the future by the possibility of imagining alternatives; the present is connected to the past because of the necessity of

tices, see Walter Powell, "Hybrid Organizational Arrangements: New Form or Transitional Development?" *California Management Review* 30 (1987): 67–88.

[38] Michael Storper, *The Regional World: Territorial Development in a Global Economy* (New York, 1997).

[39] See "Stories, Strategies, Structures: Rethinking Historical Alternatives to Mass Production," in Charles Sabel and Jonathan Zeitlin, eds., *Worlds of Possibilities: Flexibility and Mass Production in Western Industrialization* (Cambridge, 1997), 1–33.

imagining the future as a re-elaboration, however fanciful, of what has gone before."[40]

Reflexivity as boundary making and reflexivity as narration come together in Callon's revision of the notion of externality, the unintended (or deliberately ignored) consequences of economic calculation. The particular economic arrangement that we call the market derives simultaneously from the actors' ability to embed economic action in a variety of norms and institutions (including theoretical understandings of the economy), and in their ongoing attempts at disentangling other actors and objects from their multiple ties in such a way that calculative exchange can take place. The particular features of this balancing act of framing and deframing vary over time and across locations, so that an "anthropology of markets" becomes necessary to capture the diversity of economic action arising in different social settings.[41]

The main advantage to viewing economic action as a reflexive and deliberative process lies in the possibility of redefining the old dichotomies of structure and agency, actor and context, and materiality and meaning. But these conceptions are not devoid of risks, the most damaging of which is the potential construction of an ideal agent in charge of her future and capable of conjuring up alternative worlds simply by virtue of her social interconnectedness and imaginative skills. In other words, the risk lies in ignoring the role of power and conflict in deciding whose imagination and connections will carry the day. In order to avoid this risk, we need to move from economic to political action and investigate how power differentials were produced and reproduced in rapidly changing social settings.

Patronage, Politics, and the Paradoxes of Informality

In the jewelry towns, the boundaries of economic action were negotiated within networks of social and political relations that were constantly redefined. In the previous section, I have attempted to move beyond structural understandings of social networks so as to make them a suitable subject for historical analysis. In this section I will do the same for political culture. My goal is to pluralize and decenter po-

[40] Ibid., 11.

[41] Michel Callon, "Introduction: The Embeddedness of Economic Markets in Economics," in Michel Callon, ed., *The Laws of the Markets* (Oxford, 1998), 1–56.

litical culture as an analytical category in such a way that it might become sensitive to the historical actors' multiple and often conflicting perspectives. Instead of viewing socialism, Catholicism, or ideologies of self-help as fixed repertoires of meanings with specific and uncontroversial economic functions (for example the production of trust), I will emphasize their flexibility and the conflicts surrounding their interpretations.

A good place to begin this discussion is the distinction between the public and the private spheres—another narrative of separation crucial to the construction of Western modernity. For Hegel, modernity emerged from a series of fractures within an original whole (the Spirit). These fractures were epitomized by the distinction between state and civil society and dialectically resolved in the organic conception of the state.[42] Weberian modernization was predicated on the distinction between private interests and public roles assumed by actors within rational-legal bureaucracies bound to objective rules and procedures.[43] More recently, Habermas's theory of the origins of the public sphere in Western liberal polities has emphasized the social and economic autonomy of citizens from state relations as a prerequisite for rational-critical debate.[44] Common to these conceptions of modernity is the assumption that political legitimacy is predicated on the establishment of universalistic rules of conduct and on the promotion of a common and unambiguous language for the articulation of aspirations and the regulation of conflict.

Although modernity and democracy are conceptually and historically distinct processes, debates over democracy have been informed by the same dichotomies. For Habermas, for example, the tension between the instrumental rationality of market competition and the values of democratic control was worked out in the open arenas of civil society, where voluntary associations, a free press, and a variety of interest groups negotiated the rights and entitlements of democratic rep-

[42] Hegel developed these concepts in the *Philosophy of Right*, published in 1821. See also Jean Cohen and Andrew Arato, *Civil Society and Political Theory* (Cambridge, Mass., 1992).

[43] Weber outlined the relationship between capitalism and state formation in part 1 of *Economy and Society*, written in 1918–20. See also Randall Collins, "Weber's Last Theory of Capitalism," *American Sociological Review* 45 (1980): 925–42.

[44] Jürgen Habermas, *The Structural Transformation of the Public Sphere* (Cambridge, Mass., 1989). See also Craig Calhoun, ed., *Habermas and the Public Sphere* (Cambridge, Mass., 1992).

resentation. In this scenario, the conceptual and institutional distinction between public and private spheres is key to political legitimacy and to the incorporation of new claims and differences into the polity.

The path to modernity taken by the Italian jewelry towns challenges these theoretical accounts by presenting the puzzling paradox of modern polities in which the distinction between the public and private spheres is blurred at best. The three most influential mayors in the modern history of Valenza Po, for example, were a socialist accountant specializing in bankruptcy law, who put his career on the line to save the local jewelry industry from a crisis in the 1910s; a Fascist accountant specializing in extrajudicial agreements between creditors and debtors, who during the commercial crisis of the 1930s played a similar—albeit more controversial—role; and a communist gold recycler who led the town during the economic boom of the late 1950s and 1960s by combining his credit services for the local left-wing artisans with his political activity. Public roles and private interests in the jewelry towns were inextricably linked and deliberately blurred.

This interweaving of public and private roles was the product of the embeddedness of economic action in political relations. Such embeddedness challenges the distinction, so evident in Putnam's understanding of social capital, between civil and political society. Far from acting as an impartial arbiter or as an extraneous agent, the state actively constructed the social as much as it was constructed by it. In particular, in the social spaces discussed in this book the politics of patronage built bridges between local societies, public authorities, and global markets. If taking the notion of embeddedness seriously leads to a conception of economic change founded on hybridity and heterogeneity, patronage ceases to be a synonym of corruption—a degenerative pattern to be contrasted with putatively healthy and rational scenarios. By denoting a certain kind of compenetration of political and economic action, patronage (or clientelism) ceases to be regarded as exceptional. Much like *parentela*, its cousin in many stereotypical depictions of backwardness, *clientela* can be fruitfully viewed as one of the main venues through which the market is constructed. This is not to argue that familial and political loyalties were always compatible with the calculative action typical of market relations. As we will see throughout this book, embeddedness and hybridity did not always act as lubricants of social relations. Instead, some actors' desire to disembed economic action from political loyalties and familial affection created tensions and conflicts that proved quite hard to resolve. This tension between embed-

dedness and disembeddedness or, to put it in Callon's terms, between framing and deframing is key to understanding the political economy of the local societies I explore in this book.

Scholars have long acknowledged the "survival" of patronage relations as one of the distinctive traits of Italian modernity.[45] Italy provides critics of modernization theories with a powerful counterexample. Most observers, however, have regarded patronage as one of the causal factors of the relative underdevelopment of southern Italy.[46] Despite the rejection of evolutionary and deterministic models of modernization, the link between patronage and backwardness remains strong.[47] Students of the Third Italy, concerned with extolling the liberal virtues of the industrial districts of small firms, have emphasized the differences between the central and northeastern regions of the peninsula and the south. For these scholars, clientelism is a distinctively southern phenomenon. This excision of patronage from the study of northern Italy's development is puzzling. The very scholars who ignore patronage also argue for strong continuity between rural relations and small-scale industrialization.[48] The transition of the Third Italy to industrial modernity—these scholars argue—was not only permeated with civic virtues, it was also smooth and painless. In this scenario, the entrepreneurial spirit and cooperative dispositions of the sharecroppers (*mezzadri*) of central and northern Italy paved the way for the development of the industrial districts. The irony is that Italian sharecropping (*mezzadria*) has provided generations of anthropologists and sociologists with one of the archetypal models of patronage in

[45] See, for example, Luciano Graziano, *Clientelismo e Sistema Politico: Il caso dell'Italia* (Milan, 1980); and Maria Pitrone, *Il Clientelismo tra Teoria e Pratica* (Acireale, 1994).

[46] Luciano Graziano, "Patron-Client Relations in Southern Italy," *European Journal of Political Research* 1 (1973): 3–34. Putnam's contrast between southern and northern Italy is a particularly influential version of this argument.

[47] See Robin Theobald, "The Decline of Patron-Client Relation in Developed Societies," *Archives Européennes de Sociologie* 24 (1983): 136–47; Michael Korovkin's critique of Theobald's argument, "Exploitation, Cooperation, Collusion: An Inquiry into Patronage," *Archives Européennes de Sociologie* 29 (1988): 105–26; and Theobald's rejoinder, "On the Survival of Patronage in Developed Society," *Archives Européennes de Sociologie* 33 (1992): 183–91.

[48] The most influential scholars who have stressed these continuities can be found in Giorgio Fuà and Carlo Zacchia, eds., *Industrializzazione Senza Fratture* (Bologna, 1983); and Massimo Paci, ed., *Famiglia e Mercato del Lavoro in un'Economia Periferica* (Milan, 1980).

Mediterranean societies.[49] The relationship between landowner and the head of the sharecropping family exhibited all the traits usually attributed to patronage ties, including a distinctive combination of loyalty and antagonism, and of trust and malfeasance.

The uncritical acceptance of universalistic models of liberal democracy has shaped an ideological agenda aimed at replacing detached analysis with palatable myths of origin. This study corrects this approach by mapping the interaction between the politics of patronage and economic action at the micro level of local change. As I will show in chapter 4, the elements of continuity between *mezzadria* and small-scale industrialization did not lie in vague notions of entrepreneurship and cooperation, but in the new patrons' ability to build on a long-standing political culture dominated by clientage, and in the clients' ability to carry the multiplicity of roles and the political flexibility of *mezzadria* over to industrial and artisanal relations.

Patronage is—quite appropriately—a hybrid category of social and political practice that blurs the distinction between private interests and public good. Patrons use their clout and resources to grant favors and protection to their clients, who reciprocate with loyalty and support. In addition to combining seemingly contradictory social categories, such as trust and coercion as well as instrumentality and sentiments of loyalty, patronage challenges notions of political legitimacy that do not allow for the coexistence of a multiplicity of perspectives.[50] Patronage ties are legitimate within specific social boundaries defined by networks of personal relations, which often include state officials. Yet modern patronage usually lacks the positive sanction of a formal state authority. Therefore, patronage can weave the web of relations necessary for the development of viable informal economies.

[49] See especially Sydel Silverman, "'Exploitation' in Rural Central Italy: Structure and Ideology in Stratification Study," *Comparative Studies in Society and History* 12 (1970): 327–39 on Umbria; Carlo Poni, *Fossi e Cavedagne Benedicon le Campagne* (Bologna, 1982) and David Kertzer, *Family Life in Central Italy, 1880–1910* (New Brunswick, 1984) on Emilia-Romagna; and Desmond Gill, "Tuscan Sharecropping in United Italy: The Myth of Class Collaboration Destroyed," *Journal of Peasant Studies* 10 (1984): 146–69 on Tuscany.

[50] Reuven Kahane, "Hypotheses on Patronage and Social Change," *Ethnology* 23 (1984): 13. The sociological literature on patronage is vast. The conception of patronage as a multifunctional and ambiguous relation is developed by S. N. Eisenstadt and Louis Roniger, "Patron-Client Relations as a Model of Structuring Social Exchange," *Comparative Studies in Society and History* 22 (1980): 42–77. For a more traditional conception of patronage within a modernization-theory framework, see Ernest Gellner and John Waterbury, eds., *Patrons and Clients* (London, 1977).

This emphasis on the politics of patronage leads to a reinterpretation of the kinds of political cultures (usually of either socialist or Catholic orientation) that were until recently characteristic of many areas of northern and central Italy. According to Carlo Trigilia, these "subcultures" represented "a form of defense of local societies against the changes brought about by the market and the national state."[51] Trigilia maintains that the development of these cultural identities at the end of the nineteenth century went hand in hand with a particular process of class formation. Proletarianization in the Third Italy was not as fast and advanced as in the metropolitan areas of the industrial triangle. Persistent ties to the land and the survival of family networks as a general resource contributed to the creation of a scarcely polarized class structure. Cross-class policies, based on the mobilizing force of territorial subcultures, were remarkably successful, thereby mitigating individualistic tendencies and mediating between diverging interests. In other words, the vertical ties created by local identities and loyalties have been stronger than the horizontal ones of class politics.

The evidence from the jewelry towns suggests that Trigilia's contrasts between the national and the local, and between the capitalist and the premodern, as well as his emphasis on the homogenizing qualities of political culture, need to be refined. To a large extent, local political cultures articulated the meanings of the relations of patronage (but also of class) that constructed both political authority and the market. Rather than the language of confrontation and defense, I will be employing notions of translation and negotiation between local societies, the state, and powerful economic actors. Furthermore, socialism and Catholicism did not always produce cohesion and cooperation among local actors. On the contrary, the meanings to be assigned to these ideologies and their relations with social and economic practices were never uncontroversial, and these ideologies were by no means shared by all members of local society. In Valenza Po after World War II, for example, artisans tended to profess socialist or communist ideals, while the traders embraced the principles of political Catholicism. In this case political cultures fueled conflict rather than defusing it.

This understanding of local political cultures makes sense of the coexistence of patronage ties and class mobilization in the jewelry towns. Disproving the predictions of modernization theories, class mobilization failed to uproot patronage ties even during the globalization of

[51] Carlo Trigilia, *Grandi Partiti e Piccole Imprese* (Bologna, 1986), 26.

local industries after World War II. State authority was negotiated at the local level through multifunctional political relations linking the local and the national. During the "economic miracle" of the 1950s and 1960s, Arezzo's society developed into a hierarchical structure in which subcontracting relations were embedded in clientelistic ties devoted to negotiating the position of the thriving informal economy vis-à-vis the state. Widespread gold smuggling and tax evasion, two closely related practices in the Italian jewelry towns, prompted a chain of alliances and compromises between unionized workers, small-scale manufacturers, larger companies, local politicians, and state officials. Forged in secrecy, these alliances were multifunctional. They channeled local tensions into the semilegitimate arena of clientage, thereby simultaneously regulating market competition and political conflict. In other words, patronage may provide a highly flexible venue for political integration even in "modern" societies. As sociologist Luis Roniger has pointed out, "sometimes patronage can be seen to reconcile public and private authority and formal and informal rules of the game."[52] One of the main thrusts of this book is to treat the state and the market with a degree of symmetry: patronage can provide not only a venue for political integration but also a mode through which market relations can be effectively constructed.

In sum, patronage should be regarded as a set of distinctive modes of economic and political governance, rather than as a relic from premodern times. This approach is also instrumental in understanding the development of local informal economies in the Third Italy. Recent studies have challenged simplistic interpretations of the informal economy as the outcome of large companies' decentralization strategies in periods of crisis,[53] or as a reaction to the increasingly "predatory" policies of the welfare state.[54] Both empirical research and theoretical studies have shown that viable informal economies rely on historically specific networks of interpersonal relations at the local and global levels, and on elaborate patterns of negotiation between local societies and

[52] Luis Roniger, "Civil Society, Patronage, and Democracy," *International Journal of Comparative Sociology* 35 (1994): 214.

[53] See, for example, Philip Mattera, *Off the Books: The Rise of the Underground Economy* (New York, 1985), who remarks, "Operating off the books . . . represents the ultimate goal of the profit-maximizing entrepreneur: proverbial free enterprise" (38).

[54] See, for example, Bruno Contini, "The Italian Second Economy," in Vito Tanzi, ed., *The Underground Economy in the United States and Abroad* (Lexington, 1982), 199–208, who calls the informal economy "the revenge of the market."

the state.[55] Clientage fulfills both requirements: it weaves ties of trust and complicity in local societies, and it provides informal relations with a degree of protection from state authorities.

The strong conceptual and historical link between patronage and the informal economy helps to explain why many students of the Italian industrial districts have neglected both phenomena or treated them as exceptions.[56] Yet the level of informality in the areas of small-scale manufacturing was (and is) exceptionally high, and it increased in the crucial years of the economic boom of the 1950s and 1960s.[57] Informality in the gold jewelry industry was particularly pronounced, since most of the gold and virtually all the precious and semiprecious stones processed by the Italian manufacturers were smuggled into the country. The use of smuggled materials made tax evasion rampant. Moreover, undocumented homework and the violation of labor standards became widespread. In the jewelry towns, as in other Italian districts, international success and informality reinforced one another. Internationalization was not a disembodied process led by abstract principles of rationality, but the outcome of particular interpersonal relations between the towns' commercial elites and a growing number of international traders. These traders actively promoted and supported the local informal economies because of their advantages in terms of taxes and labor costs. And the clientelistic ties between the local elites and state authorities made sure that Rome turned a blind eye to these practices.

[55] See the essays collected in Alejandro Portes, Manuel Castells, and Lauren Benton, eds., *The Informal Economy: Studies in Advanced and Less Developed Countries* (Baltimore, 1989); for a synthetic survey, see Alejandro Portes, "The Informal Economy and Its Paradoxes," in Smelser and Swedberg, *Handbook of Economic Sociology*, 426–49.

[56] A partial exception is Vittorio Capecchi, "The Informal Economy and the Development of Flexible Specialization in Emilia-Romagna," in Portes, Castells, and Benton, *The Informal Economy*, 189–215, who acknowledges the role of the informal economy in the Third Italy but sees it as simply functional to models of development based on small scale. More representative of the general attitude of Italian scholars is A. Saba, *Il Modello Italiano: La "Specializzazione Flessibile" e i Distretti Industriali* (Milan, 1995), who argues that "from the point of view of economic development, it does not matter whether the new firm will develop underground and for how long it will remain underground. . . . What matters is that a new entrepreneurial group has decided to organize the factors of production and is willing to take the risk to launch a product in the market. The only and true judge is the market" (40–41).

[57] Mattera, *Off the Books*, estimates that between 25 and 35 percent of the Italian workforce was clandestine in the late 1970s. Contini, "The Italian Second Economy," reports that the Italian participation rate declined from 44 percent in 1959 to 34 percent in 1977, in the presence of a low and fairly constant unemployment rate. Regional variation of this phenomenon is far lower than other indicators of economic development. Formality and prosperity are weakly correlated in the Italian context.

This focus on the relationships between patronage and informality also sets the development of the Italian industrial districts in the context of specific patterns of state formation and legitimation. In her controversial studies, Linda Weiss has developed a state-centered approach to the analysis of the informal economy, with a particular emphasis on Italy.[58] According to Weiss, the informal economy is a political creation whose conditions of existence are shaped by the state. Because of their ideological commitments, the Christian Democratic governments of post–World War II Italy crafted an extensive body of laws devoted to promoting and protecting small businesses, thereby establishing strong incentives for firms to limit their official size. For many companies, the only way of reaching this goal was to go underground and develop clientelistic ties of protection with state officials.

Although Weiss's approach provides a valuable corrective to the mystifying optimism of the literature on the Italian industrial districts, her dismissal of the impact of local conditions is problematic. The differences between the informal economies of Modena and Naples, for example, are too wide to be ignored.[59] Informality in the Third Italy was not a measure of last resort adopted by small elites to gain additional competitiveness, as was the case in parts of the south. Rather, the informal economy of the northern districts of small firms developed historically from the negotiations between a variety of local and extralocal actors. Therefore, the "benefits" of informality were widely shared in local society. In the jewelry towns, skilled workers received generous payments under the counter; tax evasion was key to attaining and preserving small-scale proprietorship; and, of course, the leading companies used the informal economies to spread both risks and business opportunities among their client-subcontractors. The clientelistic manipulation of state regulation played a major role in consolidating these practices, but state policies did not initiate them. Most developed countries, after all, grant a degree of preferential treatment to small firms without thereby developing the kinds of extensive and competitive networks we find in northern and central Italy.

[58] Laura Weiss, "Explaining the Underground Economy: State and Social Structure," *British Journal of Sociology* 38 (1987): 216–34; Weiss, *Creating Capitalism: The State and Small Businesses Since 1945* (Oxford, 1988).

[59] See Mark Warren, "Exploitation or Cooperation? The Political Basis of Regional Variation in the Italian Informal Economy," *Politics and Society* 22 (1994): 89–115. Warren distinguishes between egalitarian and exploitative informal economies. The informal economies of the northern industrial districts are egalitarian, whereas the southern ones are exploitative. But the world of the industrial districts is not consistently egalitarian, as Warren readily admits in his discussion on gender discrimination and clientelism.

These examples challenge simplistic notions of formality and informality as distinct and separate modes of social and economic interaction. Evidence from the jewelry towns corroborates a conception of the informal economy as a pole in a continuum of shifting and overlapping social relations. After drawing attention to the distinction between work and employment, engendered by the development of capitalist relations and state bureaucracies, Philip Harding and Richard Jenkins have pointed to small businesses as paradigmatic cases of the coexistence of formal and informal relations in many modern societies:

> First, for the self-employed the relationship and distinction between work and employment is in many circumstances unclear. This is most obviously the case with respect to family labour. Second, many small enterprises straddle, with greater or lesser degrees of comfort, the gray area . . . between the formal and informal.[60]

In the jewelry towns actors tended to organize most of their relations in the gray area linking the formal and informal. At least two processes informed this pattern. First, the informal economy depended on the formal sector to thrive. Many workers, for example, combined a regular job with undocumented work in their own basements, and the contacts and skills developed in their official workplace were key to the success of their parallel activities. Second, the more vulnerable actors resorted to formal relations whenever their position in the informal economy threatened to deteriorate. Valenza Po's small-scale artisans, for example, promoted rule-bound institutions to bypass the role of local traders in their dealings with export markets. These institutions simultaneously enhanced the flexibility of the local economies while diffusing social tensions. In other words, they struck a balance between competition and cooperation.

The Structure of the Book

The structure of this book reflects the diversity of local conditions and the need for detailed historical accounts. This diversity, however, will also allow me to foreground in each chapter different theoretical and methodological issues. The next two chapters are devoted to Valenza

[60] Philip Harding and Richard Jenkins, *The Myth of the Informal Economy* (Milton Keynes, 1989), 111.

Po, a town located on the Po River halfway between Turin and Milan in northwestern Italy. Valenza Po was an unlikely candidate for a position of leadership in the gold jewelry industry, since it lacked an industrial and artisanal tradition before the late nineteenth century. The town's development can only be explained by reconstructing the interweaving of political and economic relations that turned this previously rural outpost into a major center for jewelry production and a hotbed of socialist activism. Valenza Po's economic structure was dispersed and polycentric from the start and led by an emerging elite of socialist proprietors. The problematic and yet powerful tie between socialism and craftsmanship in the local political culture, as well as the establishment of diffuse networks of patronage relations, was key to Valenza Po's specialization in artisanal jewelry. In chapter 1, I adopt a microhistorical methodology and contrast it with Putnam's macrosocial approach. In so doing, I reinterpret the relation between social networks, political culture, and economic change by crafting a narrative sensitive to the specificity of place and yet informed by theoretical considerations. In particular, I recast social capital as a deliberative process by which certain ties are put to value by actors in perennial conflict over disparate and often contradictory expectations that defy a clear distinction between trust and opportunism.

As chapter 2 will show, Fascism transformed local economic life by creating an ideological fracture between producers and traders. Such fracture also constituted the leitmotif of Valenza Po's political economy after World War II. The commercial agents and larger manufacturers gravitated towards the Christian Democratic Party, while the small-scale producers kept the local leftist tradition alive. This ideological divide made the politics of patronage more problematic, since potential patrons and clients no longer shared the same political views. The outcome of this tension was a distinction between the domestic market, for which hierarchical and informal ties remained crucial, and the international markets, where the left-wing artisans managed to carve a sphere of relative autonomy buttressed by a series of rule-bound institutions. This compromise was key to perpetuating the town's dispersed economic structure and specialization in the upper segments of the market. On a theoretical level, this chapter addresses the relationships between institutional and economic change, with a special emphasis on the distinction between formal and informal relations. In particular, I will show that this distinction was crucial to both drawing and blurring the boundaries between economic action and other

spheres of activity, such as political affiliation, the ties of locality, and familial affection. The Coasian issue of the boundary of the firm should be seen as a subset of this broader process of (dis)embedding calculative action in (or from) the fabric of social life.

Whereas the rise of commercial agents in Valenza Po led to an ideological fracture with important social and economic consequences, in Vicenza, the subject of chapter 3, ideological divides originated in the late nineteenth century along class lines, pitting socialist and anarchist workers against their largely Catholic employers. Located in the core of the Veneto, a deeply Catholic region of northeastern Italy, Vicenza had a tradition of artisanal jewelry making dating back to the Middle Ages. Ironically, though, it was there that mechanization made its Italian debut as early as the 1890s, triggering massive resistance from the workers. These tensions exploded in the 1900s, when a series of strikes culminated in the foundation of a cooperative that ended up employing nearly half of the city's jewelry workers. Paradoxically the competition between the cooperative and the local "capitalist" firms accelerated the mechanization and standardization of production and led to the defeat of the workers' movement on the eve of World War I. This defeat led to the creation of a hegemonic group of manufacturers who manipulated access to credit and commercial opportunities for the next fifty years, as Vicenza's jewelry industry boomed into an export-oriented industrial district of small and medium-size firms. This complex trajectory warns us of the difficulties in drawing clear-cut distinctions between horizontal and vertical ties and illustrates the unintended economic consequences of social and political action. Social networks can be promoted for one goal (say, the promotion of utopian change) and effect quite different results (the entrenchment of hierarchical ties of patronage).

A strike was also key to shaping the structure of Arezzo's jewelry industry—the subject of chapter 4. Jewelry making was introduced to Arezzo, a Tuscan town halfway between Florence and Perugia, by Gori & Zucchi in the 1920s. This firm specialized in relatively standardized jewelry produced by highly mechanized processes and hired growing numbers of former sharecroppers, many of whom were women. In the 1950s and early 1960s the company grew into the largest producer and exporter of gold jewelry in the world. Plans for further growth were disrupted by a strike in 1962, after which the company began to farm out an increasing portion of its activity. This process of decentralization was facilitated by two emerging social net-

works: the hierarchy of subcontractors and home workers that the company had fostered in order to cut on costs and protect itself from state regulation; and the alliance between organized labor and local public authorities, eager to stem what they perceived as the impending feminization of the workforce. This combined effort promoted male entrepreneurship as the solution to the city's problems, and Arezzo's jewelry industry began to approach the model of the Marshallian district of small firms. This chapter will give me the opportunity to discuss the impact of rural relations, especially sharecropping, on Italy's small-scale industrialization, and the importance of gender to the construction of local economies.

In the decades following World War II, Italy carved out a niche in the international division of labor founded on the production and export of "style." Most of the activities falling in this broad category were organized in networks of localized heterogeneous agents, including small and medium-size firms. What is the relationship between local networks and the production of style? I address this question in chapter 5, where I focus on the reinvention of craftsmanship after centuries of "decline"; on the patterns of taste formation that connected the jewelry towns to the international centers of jewelry (above all Paris and the German town of Pforzheim) on the one hand and to the final markets on the other; and on the troubled coexistence of systems of apprenticeship and public schooling as means to transmit knowledge across generations. These cognitive patterns qualify the jewelry towns as sites of a kind of tacit knowledge that was strongly embedded in social and political relations. The goal of this chapter is to investigate the political construction of tacit knowledge, viewed as a collective (rather than public) process that draws boundaries between insiders and outsiders and is constantly negotiated at the local level by actors eager to expand or restrict access to knowledge and redefine its meanings.

Whereas the analysis of the jewelry towns as cognitive spaces draws attention to their boundedness, a discussion of their relations with the international markets and the Italian state reminds us that the ties of locality are constructed, rather than natural. In chapter 6 I situate the Italian jewelry towns in a global map that includes the international trade centers from which gold was imported (above all the Swiss banks), and examine the negotiations between the towns' elites and the state about taxation and the enactment and enforcement of standards. These processes allow me to demonstrate how the local, the na-

tional, and the global interacted and constructed each other at different scales. The survival of a global market for gold, for example, required the strong localization of several production and commercialization phases, of which jewelry making was only one part. In a similar vein, local identities were often articulated to the state by resorting to the global languages of science and political justice. In other words, I will treat localization and globalization as symmetrical and interactive processes.

The last chapter of the book situates the jewelry towns in a larger Italian and international context. For all its peculiarities, the Italian jewelry industry was paradigmatic of the country's diverse small-scale capitalism, even though in other sectors certain tensions and contradictions were more subdued. This chapter will also give me the opportunity to compare the Italian jewelry towns with similar experiences around the world. Special attention will be paid to the jewelry industry of Providence, Rhode Island, where I have conducted some archival research. In this section, I intend to defamiliarize a certain kind of American industrial experience by showing how many similarities Providence shared with the Italian towns in terms of organization, labor practices, and political concerns. As in Italy, jewelry making in Providence was strongly embedded in networks of local and extralocal social relations. In the course of the twentieth century, these ties came to be increasingly ethnicized (due to the link between jewelry making and the local immigrant communities) and gendered (due to the extensive use of homework). As Providence deindustrialized and shed much of its population after World War II, jewelry making became simultaneously the city's largest manufacturing industry and a "residual" activity employing thousands of workers in an expanding informal economy buttressed by a strongly rooted political machine. Even though structurally very similar, the Providence jewelry district differed from the Italian cases in the historical context in which it developed and in the culturally situated meanings attached to it. The case of Providence shows the importance of narratives and understandings of the economy to economic change itself.