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AFTER THE THREE ITALIES



WEALTH, INEQUALITY AND
INDUSTRIAL CHANGE

**Michael Dunford
and Lidia Greco**



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Contents

List of Figures

List of Tables

Series Editors' Preface

Preface and Acknowledgements

List of Abbreviations

**Chapter One Introduction: Growth,
Inequality and the Territorial Division
of Labour**

**Areal Differentiation and Development
Models**

After the Three Italies

**A New Economic Geography of Uneven
Development**

The Structure of the Book

**Chapter Two Convergence,
Divergence, Regional Economic
Performance and the New Economic
Geographies**

**Analyzing regional economic performance
Convergence or divergence**

Territorial Divisions of Labour
Conclusions

Chapter Three Theorizing Regional
Economic Performance and the
Changing Territorial Division Of
Labour: Value Chains, Industrial
Networks, Competition and
Governance

Introduction

Basic and Nonbasic Industries

Explaining the Dynamics of Activities

Serving Wider Markets

Enterprises and Their Environment:

Establishing the Frontiers/Boundaries of the
Firm

Enterprises and their Environment:

Interfirm Relations

Modes of Governance and Growth

Conclusions

Chapter Four Growth and Inequality:
The Political Economy of Italian
Development

Introduction

Italy's Economy in its European and
Mediterranean Context

Official Statistics, Unrecorded Activities and
the Measurement of Output

GDP, Net Transfers and Regional Income
Territorial Inequality in Italy at the Turn of
the Millennium

Catching Up, Falling Behind, Surging Ahead
and Losing Ground: Trends in Italian
Regional Development
Conclusions

Chapter Five Institutional Dynamics **and Regional Performance**

Introduction

The Institutional Configuration and the
Characteristics of Italian Capitalism

Institutional Context and Territorial
Development Dynamics

Crime and Territorial Development

Changes in the 1990s: The Political Scene

Changes in the 1990s: The System of
Governance

Changes in the 1990s: Debt Reduction and
Privatization

Changes in the 1990s: Territorial
Development Policies

Concluding Remarks: The Implications of
Recent Trends

Chapter Six Italian Regional **Evolutions**

Introduction

Italian Regional Evolutions

Comparative Regional Development
Comparative Provincial Development
Employment, Productivity and Investment
Economic Specialization, Exports and
International Integration
After the Three Italies: The Origins and
Limits of the District Model
Conclusions

Chapter Seven Industrial Change and
Regional Development: The Changing
Sectoral Profile of Regional
Development and the Evolving
Regional Profile of Industrial Change

Introduction
The Sectoral Profile of Regional Economies
Sectoral Structures and Uneven
Development
The Changing Geography of Vehicle
Manufacturing in Italy and the World
The Changing Geography of Chemical
Manufacturing in Italy and the World
Conclusions

Chapter Eight Globalization,
Industrial Restructuring and the
Italian Motor Vehicle Industry

Introduction

The FIAT Group: Changing Functions in the Value Chain and Changing Chains
Globalization and Market-Seeking Investments

FIAT in Italy: Technological and Organizational Upgrading and Geographies of Production

Outsourcing, Redefining Corporate Boundaries and Restructuring the Supply Chain

Crisis, Markets and Models

Conclusions

Afterword

Chapter Nine Reconfiguring Industrial Activities and Places: The Italian Chemical Industry

Introduction

The Italian Chemical Industry and its Changing Position in the Wider European and World Context

History and Characteristics of the Italian Chemical Industry

Trajectories of Restructuring

Montedison

SNIA

Re-engineering a corporation: ENIChem's complex restructuring

The Role of SMEs

Another Aspect of the New International Division of Labour: Foreign Companies In Italy
Experiences and Regional Impacts of Restructuring: The Disengagement of the Chemical Industry in Puglia
From Growth Pole to Industrial Cemetery? The Disengagement Of The Chemical Industry from Basilicata
Conclusions

Chapter Ten Conclusions and Further Remarks

Introduction
Geography as a Spatial Expression of a Social Order
Geography and Development Models
Contemporary Perspectives on Industrial Change and Regional Economic Performance
Theorizing Industrial Change and Regional Inequality: Profit Strategies and Value Chain Upgrading
Areal Differentiation and Uneven Development In Italy: From the North-South Divide to the Three Italies and After
Economic Decline and the Limits of the District Model
Industrial and Regional Performance

**Conclusions: Inequalities, Territorial
Divisions of Labour and Profit Strategies**

References

Notes

Appendices

Subject Index

Author Index

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Michael Dunford and Lidia Greco

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Dedication

For Lotte and Robin (Michael Dunford)

To my return to Italy (Lidia Greco)

Figures

- [1.1](#) Italy's territorial units and regions
- [1.2](#) Italy: main relief
- [1.3](#) Manufacturing job and population trajectories, 1951–2001
- [2.1](#) Convergence in reduced form neoclassical growth models
- [2.2](#) Factor and income flows and regional dynamics
- [2.3](#) Twin-peaks
- [2.4](#) Spatial structures and causal processes in the new economic geography
- [2.5](#) Monopolistic competition
- [2.6](#) Explaining economic landscapes
- [2.7](#) Core-periphery bifurcations
- [3.1](#) Territorial divisions of labour
- [3.2](#) The productive model and its context
- [3.3](#) The labour process and the working day
- [3.4](#) Strategies of integration and the structure of costs
- [3.5](#) Strategies of integration
- [3.6](#) The circuit of capital
- [3.7](#) Explaining development
- [4.1](#) Economic potential in Italy, the EU15 and their neighbours
- [4.2](#) Net imports, net transfers and GDP per head in Italy in 2000
- [4.3](#) GDP, Gross Regional Product and net transfers, 1995–2000
- [4.4](#) Territorial inequality in Italy in 2000
- [4.5](#) Mapping territorial inequality in Italy in 2000
- [4.6](#) Trends in Italian regional inequality: disparities in regional GDP per resident, 1951–2000
- [4.7](#) Territorial disparities in (apparent) productivity: disparities in regional GDP per full-time equivalent worker, 1970–2001
- [4.8](#) Territorial disparities in employment rates, 1970–2000
- [5.1](#) The 1980 Irpinia earthquake: affected areas
- [5.2](#) Major political events in Italy
- [5.3](#) Devolution in Italy
- [5.4](#) The system of political governance
- 5.5 Objective 1 areas in Italy, 1989–2006

- [6.1](#) Piemonte and Lombardia
- [6.2](#) Puglia and Basilicata
- [6.3](#) Cumulative growth of Italian regional GDP relative to the EU15 average, 1951-2000
- [6.4](#) Cumulative growth of Italian regional GDP per head relative to the EU15 average, 1951-2000
- [6.5](#) Cumulative growth of Italian regional population relative to the EU15 average, 1951-2000
- [6.6](#) Cumulative growth of Italian regional employment relative to the EU15 average, 1970-2000
- [6.7](#) Cumulative growth of Italian regional productivity relative to the EU15 average, 1970-2000
- [6.8](#) Growth of Italy's regional economies relative to the EU15 average and change in rank order in Italy, 1951-2000
- [6.9](#) Growth of Lombardia, Piemonte, Puglia and Basilicata relative to the EU15 average, 1951-2000
- [6.10](#) Identification of the roles of GDP and population growth by region, 1951-2000
- [6.11](#) GDP, productivity and employment growth by region, 1975-2000
- [6.12](#) Compensation of employees, productivity and employment rates in 2000
- [6.13](#) Gross fixed capital formation, 1951-2000
- [6.14](#) Italy's share of world exports by sector: export growth, sectoral exports and Italian specialization in 1994-2001
- [6.15](#) Italy's exports free on board as a share of imports at cost including insurance and freight by geographical area: import growth, market area size and Italian specialization in 1994-2001
- [6.16](#) Exchange rates relative to the US\$, 1960-2000
- [7.1](#) Employment, productivity and output by sector in 2000
- [7.2](#) Specialization and employment by sector in 2000
- [7.3](#) Apparent productivity of labour by sector in 2000
- [7.4](#) A decomposition of relative regional productivities, 1980-2000
- [7.5](#) Motor vehicle manufacture (ISIC Revision 3.1: 34): employment (2001) and employment change (1981-2001) by province
- [7.6](#) The geography of world chemical sales in 2002 (€ billion)
- [7.7](#) Chemicals (ISIC Revision 3.1: 34): employment (2001) and employment change (1981-2001) by province
- [7.8](#) Gross output of the EU15 chemical industry and its largest economies,

1991-2002

- [7.9](#) Gross output of the Italian chemical industry, 1980-2003
- [7.10](#) Gross output of the Italian chemical industry by product group, 1980-2003
- [7.11](#) Evolution of chemical and pharmaceutical production by macroareas, 1987-2003
- [7.12](#) The changing geography of new petrochemical capacity
- [8.1](#) The motor vehicle chain
- [8.2](#) New passenger car registrations in Western Europe, 1990-2001
- [8.3](#) Sales of cars and light commercial vehicles, 1990-2000
- [8.4](#) Trends in the distribution of value added
- [8.5](#) Global purchasing policy matrix
- [8.6](#) Global sourcing support system
- [8.7](#) Matching European capacity to sales
- [8.8](#) Growth of car ownership and sales in Western Europe, 1950-2000
- [8.9](#) Capital expenditure by FIAT Auto, PSA Peugeot Citroen and Renault, 1992-2001
- [8.10](#) The game plan: new FIAT/Lancia and Alfa product development by market segment
- [9.1](#) Composition of chemical sales and intermediate demand circa 2002
- [9.2](#) The chemical industry commodity chain
- [9.3](#) The intermediate nature of petrochemical products
- [9.4](#) The restructuring of ICI
- [9.5](#) The formation of Basell
- [9.6](#) The Chemical Sector Observatory
- [9.7](#) The Brindisi industrial area
- [9.8](#) The Basento Valley ASI
- [9.9](#) Nylstar in Europe
- [9.10](#) Nylstar production trends, 1994-8
- [9.11](#) The PET chain

Tables

- [2.1](#) The hierarchical division of labour within the multinational corporation and uneven territorial development
- [4.1](#) Trends in GDP per head at PPS, 1960–2001 (World = 100)
- [4.2](#) Share of irregular work in 2002 (full-time equivalent irregular jobs as a share of the total)
- [4.3](#) Incidence of violent and organized crime, 1988–2001
- [4.4](#) Net transfers, disposable income, consumption and investment in 2000
- [4.5](#) Evolution of net imports and net transfers in Italy, 1980–2000
- [4.6](#) Italy's provincial economies: the largest, the richest, the poorest, the fastest growing and the slowest growing
- [4.7](#) Decomposition of the Theil coefficient, 1995–2000
- [5.1](#) General elections in Italy, 1972–92
- [5.2](#) General elections in Italy, 1994–2001 (proportional system)
- [5.3](#) Public finance in Italy and the EU15, 1980–2002
- [5.4](#) Privatisations in 1992–99
- [5.5](#) Planning and Enterprise Agreements approved in 1986–99: situation as of 31/12/2002 (€ million)
- [5.6](#) Incentives under Law 488/92 per inhabitant by region in 1996–8
- [5.7](#) The measures of negotiated planning
- [5.8](#) Structural Fund support
- [6.1](#) GDP and population growth in Italy, 1950–2001
- [6.2](#) Average annual rates of population growth, natural increase and net migration per thousand, 1951–2001
- [6.3](#) Trends in provincial growth: the fastest and slowest growing provincial economies, 1995–2000
- [6.4](#) Trends in provincial growth: Lombardia, Piemonte, Basilicata and Puglia, 1995–2000
- [6.5](#) Structural differences between Italian regions, 1980–2000 150
- [6.6](#) Italian exporters by export revenue, 2001
- [6.7A](#) Outward foreign direct investment, 1990–2001 (as % of world total)
- [6.7B](#) Inward foreign direct investment, 1990–2001 (as % of world total)
- [6.8](#) Exports as a share of regional GDP (%)
- [6.9](#) Exports by sector and region, January–March 2001 (€ million)

- [6.10](#) Size distribution of firms, 1981–2001
- [7.1](#) An intrasectoral/intersectoral decomposition of regional productivity, 1980–2000
- [7.2](#) Relative regional productivity and shares of Italian employment, 1980–2000
- [7.3](#) Manufacture of motor vehicles by country and zone, 1980–2002
- [7.4](#) Manufacture of passenger cars by country and zone, 1980–2002
- [7.5](#) Evolution of FIAT Auto's plants in Italy
- [7.6](#) FIAT Auto Italia: motor vehicle production in Turin and the rest of Italy, 1997–2003
- [7.7](#) Automotive sector in FIAT Auto's Mirafiori and Rivalta by company, 1989–2002: employment decline and outsourcing
- [7.8](#) Vehicle production and employment in Turin and Italy, 1993–2002
- [7.9](#) Motor components sector in Turin
- [7.10](#) Chemical industry indicators, 1991–2002
- [8.1](#) FIAT Group net revenues by sector of activity, 1991–2003 211
- [8.2](#) FIAT Group financial highlights, 1991–2003 (€ millions) 215
- [8.3](#) Number of passenger cars and commercial vehicles per 1,000 inhabitants at 1st January
- [8.4](#) Production of the Palio and Siena, 1996–2001
- [8.5](#) World production by manufacturer and economic area, 2002 and 1998
- [8.6](#) International FIAT suppliers and production poles
- [8.7](#) The game plan: platform convergence and component standardization
- [9.1](#) The segments and main subsegments of the EU chemical industry in 2002
- [9.2](#) Chemical industry research intensity in several industrialized countries
- [9.3](#) The main chemical companies in the world
- [9.4](#) The main Italian chemical groups in 1971–2
- [9.5](#) The performance of the main international chemical groups, 1980–1
- [9.6](#) Net operating income of the main Italian chemical companies during the 1980s (\$ million)
- [9.7](#) The performance of ENIMont, ENIChem and ENI petrochemical interests, 1988–2003
- [9.8](#) Polimeri Europa's production sites
- [9.9](#) The sales of the main Italian chemical companies, 2001
- [9.10](#) Size distribution of Italian chemical firms, 2001

- [9.11](#) High chemical-using industrial districts
- [9.12](#) Changing ownership of the Brindisi petrochemical plant
- [9.13](#) ENIChem's production in Brindisi in the 1990s
- [9.14](#) Chemical companies in Brindisi
- [9.15](#) The Valbasento industrial zone in the early 1990s
- [9.16](#) Employment in the Basento Valley, 31 December, 1992
- [9.17](#) Nylon plant productivity, 1994–8

Series Editors' Preface

The RGS/IBG Book series publishes the highest quality of research and scholarship across the broad disciplinary spectrum of geography. Addressing the vibrant agenda of theoretical debates and issues that characterise the contemporary discipline, contributions will provide a synthesis of research, teaching, theory and practice that both reflects and stimulates cutting edge research. The Series seeks to engage an international readership through the provision of scholarly, vivid and accessible texts.

Nick Henry and Jon Sadler

RGS-IBG Book Series Editors.

Preface and Acknowledgements

This book is one of the results of a research project (L213252028) funded by the UK Economic and Social Research Council under its 'One Europe or Several?' programme. The project was entitled Regional Economic Performance, Governance and Cohesion in an Enlarged Europe. The aim of the project was to discover whether, as EU integration and enlargement moved ahead, Europe's regional economies were moving closer together, or whether new geographical differences and inequalities were being created. To this end the research concentrated on developed and less-developed areas in four countries: England, Italy, Poland and Slovakia. Aggregate data on the performance of regional economies were collected in each country. A plant-level survey of 482 establishments was also completed, as were 165 interviews with firms and regional development institutions.

The research profited greatly from the support of the Programme Director, Helen Wallace (European University Institute, Florence), the contributions of the main researchers, Jane Hardy (University of Hertfordshire), Ray Hudson (University of Durham), Al Rainnie (Monash University), David Sadler (University of Liverpool) and Adrian Smith (Queen Mary, University of London), and the energy and enthusiasm of two research fellows, Alex Bolland and Brian Haywood (University of Sussex). As far as the Italian research was concerned, a major contribution was made by Ray Hudson who took part in the Italian field work and whose reflections helped shape this volume. In Italy, Gioacchino Garofoli (Università degli Studi dell'Insubria), Anna Giunta and Flavia Martinelli (Università della Calabria), Alfredo del Monte (Università di Napoli Federico II) and Vittorio Nicolardi (Università degli Studi di Bari) made helpful and sometimes vital contributions. A number of other people played helpful roles in setting up and carrying

out surveys and interviews: Emanuela Altomare, Cesare Benzi, Matteo Boemi, Oronzo Catucci, Lesley Dinnen, Fabrizio Guzzo, Caterina Marini, Alessandro Muscio, Michele Santangelo and Vincenzo Sileo.

The idea of writing this particular book emerged in the final year of the project. At that time Lidia Greco took part in some of the interviews in southern Italy, and the two authors co-drafted a report on the Italian research for the End of Project Workshop held in Sussex in April 2002. At the same time both authors had worked for more than a decade on aspects of Italian regional and urban development and shared a concern about the adequacy of the perspectives and interpretations that dominated much of the international literature.

The aims of this volume are threefold. The first is to provide an updated picture of Italy's regional inequalities and to develop more generally applicable methods for documenting and analyzing them. To this end Italy's economic performance, its recent development relative to other European countries and the rest of the world, its internal differentiation and its persistent regional inequalities are all analyzed. The second is to examine the changing territorial division of labour in a number of economic sectors. A disaggregation of trends in regional development permits the identification of the contribution to regional performance of firm performance, which is itself examined in the light of corporate strategies that unfold in the context of wider product and value chains. The third is to help develop a critique of neoliberal theories of convergence and spatial development, to provide a new synthesis of theoretical ideas in economic geography, and to contribute to revitalized political economy approaches to territorial development.

As far as the examination of Italian regional inequality is concerned, it is important to recall that the overturning in

the 1990s of the post-WWII political order, the restructuring of interest group representation, the implementation of a series of administrative and policy reforms and the process of European integration created hopes of more successful economic and political development. In the field of regional studies, the exceptional growth of industrial districts in the centre and northeast of the country, innovative regional policy reforms, which replaced the top-down approach of the previous 40 years with a more democratic and participative bottom-up approach, and the evidence of economic vitality in some parts of the south renewed the hope that Italy's deep-rooted regional divisions might diminish.

A careful analysis of quantitative and qualitative data suggests however a more qualified picture. Although territorial inequalities have started to diminish in the recent past, wide territorial inequalities remain. These inequalities are primarily macroterritorial and are determined by a divergence in employment rates rather than in productivity. The scale of contemporary inequality is in part a consequence of the fact that in 1974-96 Italy experienced sharp increases in territorial inequality, reversing earlier processes of catch-up and convergence: the economics and politics of excellence rewarded and strengthened successful regional economies, while unsuccessful economies were weakened and discouraged, often on the grounds that the result would be a faster increase in aggregate wealth.

At the same time the Italian economy has lost momentum. Although Italy continues to occupy an important economic position vis-à-vis other advanced European countries, it confronts a number of serious challenges. Tight Euro-zone financial controls and strict constraints on macroeconomic management have constrained growth, while the end of currency devaluations relative to its European partners has exposed some of the structural weaknesses of Italy's economic apparatus. At present, profitability and growth are

suffering from the country's specialization in traditional sectors and its dependence on slow-growing markets.

What this analysis of regional inequality and economic performance highlights is the existence of a wide range of regional trajectories on the one hand and the interdependence and unevenness of Italy's economic geography on the other. In much of the recent geographical literature, however, these central features of Italy's economic geography are frequently overlooked and are no longer considered as something requiring explanation. Often this literature is characterized by region-centred approaches and a concern with what happens inside regional economies. Consequently, little attention is paid to the study of unequal economic development, socioeconomic inequalities and the role of power relations in shaping the space economy. Instead, accounts of the Third Italy, and also of the development of southern districts, addressed just one aspect of the structure and development of the space economy. Additionally, some of this literature implicitly assumes that areas that are more developed offer role models for areas that are less developed. A similar idea is an explicit aspect of neoclassical convergence models. As these models, with their expectations of catch-up, prevailed until recently, the economic literature also was difficult to reconcile with the reality of widening inequalities.

The existence of these gaps between models/theories and reality suggests that there is a need for a more systematic account of regional inequalities that considers the relationships between development and underdevelopment. If development and underdevelopment are interconnected, it follows that, instead of a single pathway of modernization and development, there are multiple pathways, and that, alongside mechanisms that equalize development, there are mechanisms that make it more unequal. More radical versions of this thesis suggest that, in capitalist societies,

development and underdevelopment are two sides of the same coin. An implication of these ideas is that the central object of analysis should be the shifting map of areal differentiation and the shifting mosaic of uneven development.

In this volume, the analysis of regional inequality accordingly opens the way to the elaboration of a more comprehensive approach to regional economic development. To this end elements of different theoretical approaches are synthesized into an alternative and new conceptual framework. The aim is to disclose the nature of variations in regional development as the outcome of complex and geographically differentiated political and economic processes.

More specifically, the framework seeks to identify the connections between comparative regional development, the underlying territorial division of labour and the mechanisms that shape it. The idea is that one can connect the changing trajectories of Italy's regional economies and the associated changes in inequality with the changing position of Italian enterprises in European and international divisions of labour, and that one can combine quantitative evidence of regional performance with quantitative and qualitative evidence of firm performance and industrial change.

In the perspective that we suggest, the profit-seeking firm is the central economic actor in the explanation of industrial change. Nonetheless, the firms' external environments and their network relations with other firms are also considered. Networks exist at a regional level. In contrast to the new regionalism, however, more attention is paid to interregional relationships and international networks. In addition, whilst acknowledging the fundamental profit-seeking nature of enterprises, the approach adopted recognizes that institutional variables, primarily the institutional

environment in which companies operate, affect corporate economic performance. This institutional environment comprises not just other firms but also a set of institutional, political and cultural conditions.

To summarize, this volume offers, first, an analysis of regional performance. In seeing regional performance as the outcome of the shifting relative weight of centrifugal (equalizing) and centripetal (unequalizing) forces, it provides an alternative to standard theories of catch-up. Second, it examines the role of firm performance in shaping regional performance. In doing so, it examines some of the micro-foundations of regional performance. Third, it centres explanations of the geography of industrial change on an analysis of profit-seeking in the context of wider value chains and institutional configurations. In doing so, it aims to insert a recognition of the role of profit-seeking into a theory of corporate conduct that is less rudimentary than those of mainstream economics.

As with any joint work, there was a division of labour in the preparation of this volume. Michael Dunford was primarily responsible for chapters 2-4 and 6-8. Lidia Greco was primarily responsible for chapters 5 and most of 9. The conclusion and this preface were jointly written. All the chapters were discussed together and developed or edited in the light of these discussions.

The authors wish to thank a number of people who played important roles in the preparation and publication of this volume. Franco Chiarello, Nick Henry, Ray Hudson, Benito Giordano, Roger Lee, Diane Perrons, Francesco Prota and three anonymous referees provided valuable comments on the script and/or were involved in helpful discussions of different parts of this work. Hazel Lintott (University of Sussex) drew many of the illustrations. Debbie Seymour carefully copyedited the script, while Angela Cohen and Jacqueline Scott saw the book through its various stages of

production. The authors owe, finally, a special debt of gratitude to Ray Hudson for his role in initiating the collaboration that made this book possible.