

## Chapter 3

# Institutions, Agency and Path Dependency

**Abstract** Taking cues from the most recent debate in the field of economic geography, we will see in this chapter that local resources can remain untapped because of the consolidation of routines and narratives that are against change even when it improves everyone's situation. We will also see that changing narratives and changing private actors' routines in order to use local untapped resources is possible if identified obstacles—mainly the lack of mutual experience between actors of innovation—are overcome. The experience of change, which would support both a change of routines and a change of narratives, is apparently possible only as a result of previous experience. This is a trap. The chapter starts, however, by discussing an apparently powerful way of avoiding any trap: if mobile resources tend to abandon lagging regions, building industrial districts and/or cluster could be as making immobile local resources that are normally mobile.

### 3.1 Industrial Districts and Clusters

If mobile resources tend to abandon lagging regions, by widening the gap with more developed regions, the engine of growth must lie in development strategies that start a process of productive employment *rooted* in the local context. At first sight, it would seem that the Italian experience of industrial districts, on which there is a vast literature reconstructing their history and dynamics, might serve as a guide to build these strategies to make mobile resources immobile. Industrial districts, characterized by a coherent whole of local labor and capital, turn these mobile resources into immobile resources because of their coherence and complementarity. And they have experienced notable success.

#### 3.1.1 *Building Industrial Districts?*

After years of research which started in the 1970s, Becattini (1978, 1979) defined industrial districts as three level-systems: «the productive apparatus in the

strictest sense; the institutions linking the productive apparatus [...] to the district's community; the formation and transmission of values that are at the foundation of district-type behavior» (Maccabelli and Sforzi 1997, 259–262). Each of these three levels (interacting with one another), are characterized by specific elements. These are the distinctive resources used effectively only in that district, and the fact that they are immobile and defend the industrial district from agglomeration processes that may be taking place in other areas. These resources include teams of firms that maintain links among districts and with external demand, local organizations. These represent interest groups that mediate between social consensus and the competitiveness of the district, contributing to a price system regulated between a minimum and a maximum, to guarantee both the social reproducibility of the district, and its external competitiveness. Other resources include tacit or contextual knowledge of a productive or professional nature, and the capacity to renew it constantly through interaction with codified knowledge. Finally, a set of basic or elementary institutions, such as family, parish, infant schools, is required, as well as a political and cultural context that can transmit values such as entrepreneurial spirit, a healthy desire to make money, an aptitude for competition but also for cooperation, and a keen appreciation of technical and professional improvement.

The literature on the different definitions of industrial districts has sometimes stressed the centrality of one or another of these resources. The *Handbook of Industrial Districts* outlined one definition (Becattini et al. 2009, xvii and xviii). In this definition, the main features of an industrial district, is an «interpenetration of a community of people and a production apparatus» able to produce for «markets progressively and largely external to the locality of industry, based on the systematic and professional activity of competent producers». A district also implies an accomplished organization for the most efficient use of local resources. In other words, we can conceive the industrial district as a localized, social and economic machine, complete with all its elements and rooted in a specific place. Consequently, you might think that the best place-based policy would be to *create* industrial districts. Is this possible?

The question needs to be divided into three parts. First, are industrial districts replicable as such? Second, have deliberate policies effectively supported the growth of historical districts? Third, could/should those possible policies be implemented today? From the literature on industrial districts some points emerge: (1) It is very unrealistic to think that districts can be created intentionally; (2) the majority of the literature has not researched policies, stating that they had no effect without a solid empirical basis; (3) national and local policies have played a crucial role in the development of historical industrial districts in Italy; (4) it could be argued that while you cannot *create* districts without very particular historical conditions, policies in the past had probably intentionally and effectively supported them; (5) past policies are impractical today.

Experts have always been skeptical about the replicability of districts (Brusco 1989). This skepticism clearly emerges because the cultural and social identity of districts is the result of a long history and tradition. During an interview in 1997, however, Giacomo Becattini claimed that the debate over whether industrial

districts could come about even today was still open, and listed what, in his opinion, would make it possible. Becattini claimed that incomes would continue to grow with globalization, creating a greater and more differentiated global demand for personal and domestic durables, as well as the technologies to produce them. He also claimed that social integration would become a more important issue, maybe as a reaction to a growing perception of fear and insecurity, and that this increased integration would enhance the value of the industrial district method of producing and living, coupling competition and cooperation. In the interview Becattini said that the proliferation of industrial districts in the post-war period in Italy and elsewhere was a first wave, and that a second wave, stimulated by a global «demand for industrial districts», was underway. This kind of optimism is troublesome, even taking into account that the end of 1990s, when the author made his predictions, is a long time ago. The global crisis had not struck and was not anticipated. The real collapse of employment in small firms in Italy was perhaps impossible to predict.<sup>1</sup>

The problem is that Becattini's approach excludes a priori the meaningful influence of intentional policies, both national and local, on the origin and growth of districts. Therefore, we can observe two positions in most of the literature on Italian industrial districts. One supports the replicability of districts and the other does not. Both provide a negative answer to the second question concerning the capability of intentional policies<sup>2</sup> to create districts. However, most of the literature on industrial districts has reported little or no research on national or local policies supporting districts. There are objective difficulties in terms of analysis and measurement, but this does not justify an a priori judgment, nor the idea that policy counted only inasmuch as it created a «favourable climate» (Signorini 2000). It is true that, during recent years, several essays on industrial districts, mentioning intentional public actions, have been published. It is, nevertheless, legitimate to have a strong suspicion that the correction is belated and insufficient and only took place when the omission was recognized as being an evident

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<sup>1</sup> In Italy, small firms with fewer than 50 employees in the manufacturing sector have lost 748 thousand jobs from 2001 to 2011, on a total reduction of one million employed. Between 1971 and 2001 small firms increased employment by 760 thousand offsetting much of the loss of 960 thousand in firms with more than 50 employees. The increase in the weight of small firms' employment (in Italy from 42 % in 1971 to 59 % in 2001) was a general process that occurred in many countries during those three decades; but in Italy—the only case in industrialized countries—a growth in the absolute values of the small firms' employment took place as well.

<sup>2</sup> Schmitz and Musyck (1994) observed that industrial districts were not an Italian peculiarity. «In the 1970s and 1980s, industrial districts in Europe achieved international competitiveness and attained high employment standards, even though they were based on local small and medium-sized firms and concentrated on traditional sectors» (Schmitz and Musyck 1994, 889). After a reflection on what policy lessons can be drawn from this experience, they concluded expressing their doubts about the *intentional* reproducibility of districts, because few studies were available on the role of policies, their origin, and first period of life.

oversight.<sup>3</sup> We could also think that recent papers were published as a result of the crisis of the districts and the need to justify some form of help, or simply to apportion blame as, for example, in Parrillia (2009) and Ramazzotti (2010). These essays, moreover, focus on industrial policies targeted at district maintenance, even in cases where the declared intentions are more ambitious and would like to include directions for policies aimed at a rebirth or transplant of districts. Solinas (2009) in the introduction to the brief chapter of the cited Handbook devoted to policies, recognized this, while referring to the only contribution in the whole book on policies aimed at creating and supporting districts (Unido experience<sup>4</sup>).

In fact, national and local policies had a great influence on the history of Italian districts, as emerges in the few studies that took them into consideration.<sup>5</sup> It is also true that these policies, albeit important, supported the emergence and development of industrial districts when they were coupled with favorable and particular historical conditions. In other words, it is not true that districts are born without political support, but it is equally untrue that these policies alone were sufficient. At least until the 1980s favorable national policies were implemented, especially a mild regime of taxes and administrative requirements for small firms. Locally, several policies (coming from diverse institutions) provided local welfare and services that supported the labor supply (especially feminine), services for technical and vocational training, financial services to small businesses, and very few restrictions in the use of land near or within urban areas.

Limited restrictions on the use of land proved to be very important. Together with a flexible fiscal regime, the favorable conditions granted to small businesses in building houses and sheds constituted a significant transfer of district building costs to the community and other sectors of the economy and society. It was assumed that the environment and an effective government of the territory could be easily sacrificed in the name of industrial growth. The consequent capitulation of local governments, their failure to reform themselves (Calafati 2014) and territorial anarchy are among the causes of the decline of today's national economy,<sup>6</sup> although industrial districts are certainly not the only ones responsible. One could assert that Italian industrial districts were successful because they used up not only the resources available at the time but also future resources, which we must pay

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<sup>3</sup> The cited *Handbook* on the industrial districts has 900 pages, of which only 66 are dedicated to "Public policies and industrial development strategies".

<sup>4</sup> This Handbook's paper with the title "The industrial district model in the development strategy of international organizations: The example of UNIDO" was later published in the official Unido Technical Paper Series as: "Cluster development for pro-poor growth—the UNIDO approach". The latter title better matches the content in which districts are mentioned just to assert that the related experience is better referable to clusters!

<sup>5</sup> Brusco and Righi (1985), Trigilia (1986, 1991), Arrighetti and Seravalli (1997), Bagnasco (1997), Seravalli (1999).

<sup>6</sup> «In Italy there is an urban issue that should be addressed urgently, as it is one of the main reasons for the economic decline of the country» (Calafati 2009, 1).

now. This consideration suggests great caution while describing the experience of Italian districts as a good strategy for the development of lagging areas.

In conclusion, industrial districts could be a model for a productive system that organizes and valorizes local resources by making them immobile. The idea that industrial districts came about and grew without any support from policy makers must be dismissed. It does not follow, however, that the policies that encouraged the development of Italian industrial districts in the past are now recommended at national and local level. Previous policies in fact sacrificed fairness in the tax system and compromised the environment with serious consequences for today's territorial anarchy and weak public administration. Moreover, these policies were successful when coupled with local, specific historical conditions which cannot be intentionally reproduced.

### 3.1.2 Clusters

Porter's (1998) clusters configure a more tractable model for making mobile resources immobile. Instead of «a localized industry embedded in a community of people [...] [with] an economic and social identity shaped by [...] a set of shared cognitive, moral and behavioral attitudes drawing on locally-dense cultural interactions», that are peculiar of the industrial districts, clusters are seen as «geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field that are present in a nation or region». <sup>7</sup> Districts and clusters share the principle that the division of labor is best organized through a formula of both collaboration and competition, between market and hierarchy. This hybrid formula avoids the defects of incomplete markets, hierarchy rigidity, and high monitoring costs.

Clusters have something more and something less than districts. They express more explicitly the essential and continuous cooperation among firms and institutions, and with public service providers located all along the value chain. They have less connection with the «local dense cultural interactions» in order to have «shared cognitive, moral and behavioral attitudes». Cohesion is provided by purposely organized structures. Consequently, clusters could be considered organizations that can be created just because they have some additional, intentionally provided elements, and less historical and place-rooted factors compared to districts. The UNIDO initiative quoted by Solinas, for example, attempted to create clusters even in the poorest regions, driven by the empirical evidence that showed the economic and social success of clusters in the United States of America (Delgado et al. 2012, 4 and 32).

However, research on the specific issue of the new construction of clusters is poor, and leaves little room for enthusiasm. Little is known about the extent to

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<sup>7</sup> Official definition offered by the Institute for Strategy and Competitiveness at Harvard Business School.

which intentional policies counted. «We plan to investigate the specific role of regional cluster policies in shaping the impact of clusters on economic performance in future work. [...] More research is needed to assess the role of specific state and Federal-level policies in catalyzing cluster growth» (Delgado et al. 2012, 6 and 33). On the other hand, what we know is not encouraging and looks the same as the case of industrial districts: «If cluster policy is understood as a tool to artificially change the nature of economic geography, there are many conceptual and practical arguments against its use. If, however, cluster policy is seen as a way to leverage existing agglomerations as platforms for collaboration to enhance cluster dynamics and as more effective channels to deliver economic policies, it has much potential» (Ketels 2013, 266).

In conclusion, the creation of industrial districts or cluster catalyzing does not seem to be a viable answer for place-based interventions in lagging regions. They could have been a very effective solution because the coherent set of resources related to a site, operating by means of cooperation and competition, would have solved both the problem of best availability and that of the exploitation of immobile resources at the same time. Unfortunately, it does not seem possible (or useful) to propose policies for creating districts or clusters. The remaining solution is, therefore, to focus on less powerful policies, targeted at less sensational outcomes. The availability of immobile resources must be assessed case by case. We must also determine whether optimal exploitation should be considered spontaneous or not. This will be the topic of the following sections of this chapter.

## 3.2 Evolutionary Economic Geography

### 3.2.1 *Geography's Contention*

We have already considered geographers' criticism of New Economic Geography, which have not left Paul Krugman indifferent.

Many economic geographers proper were furious at the rise of the new geographical economics. [...]. Actually, the reaction was even worse than I expected. [...] there was a widespread rejection not just of the assumptions of rational behavior and equilibrium, but of the whole notion of mathematical modeling and even the use of quantitative methods. (Krugman 2010, 4).

Several years of fierce opposition, or rather of reciprocal disregarding,<sup>8</sup> are now leaving their place to more constructive efforts. Some geographers explicitly call

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<sup>8</sup> «Far from portraying the economic geographer as the amateurish trainer who valiantly, but foolishly, tries in vain to tame a pride of wild lions only to end up devoured by the beasts, our own experience suggested a very different picture: that of two disciplines ignoring each other. [...] Whereas the economists/lions were busy steadily improving and expanding their tricks, geographers had become butter-flies, freely flying the fields of knowledge with the aim of tasting the best from every flower they visit» (Duranton and Rodriguez-Pose 2005, 1695).

for dialogue and even a compromise on both parts (Buckley and Buckley 2009, 2814) since for both geographers and economists the central issue is the same, namely «how to explain the riddle of uneven spatial development» (Garretsen and Martin 2010, 127).<sup>9</sup> The debate, however, might provide a useful springboard for our analysis.

Just as NEG provided some useful elements to justify place-based policies, the opposite approach (mainly Evolutionary Economic Geography—EEG) allows us to reflect on the features of place-based policies. Indeed EEG provides valuable suggestions, as we will see, for clarifying the reasons why local immobile resources often remain untapped, and why the hypothesis of their spontaneous exploitation is poorly founded. EEG also identifies obstacles to be overcome by policies in order to use untapped resources efficiently.

### 3.2.2 *First Clues*

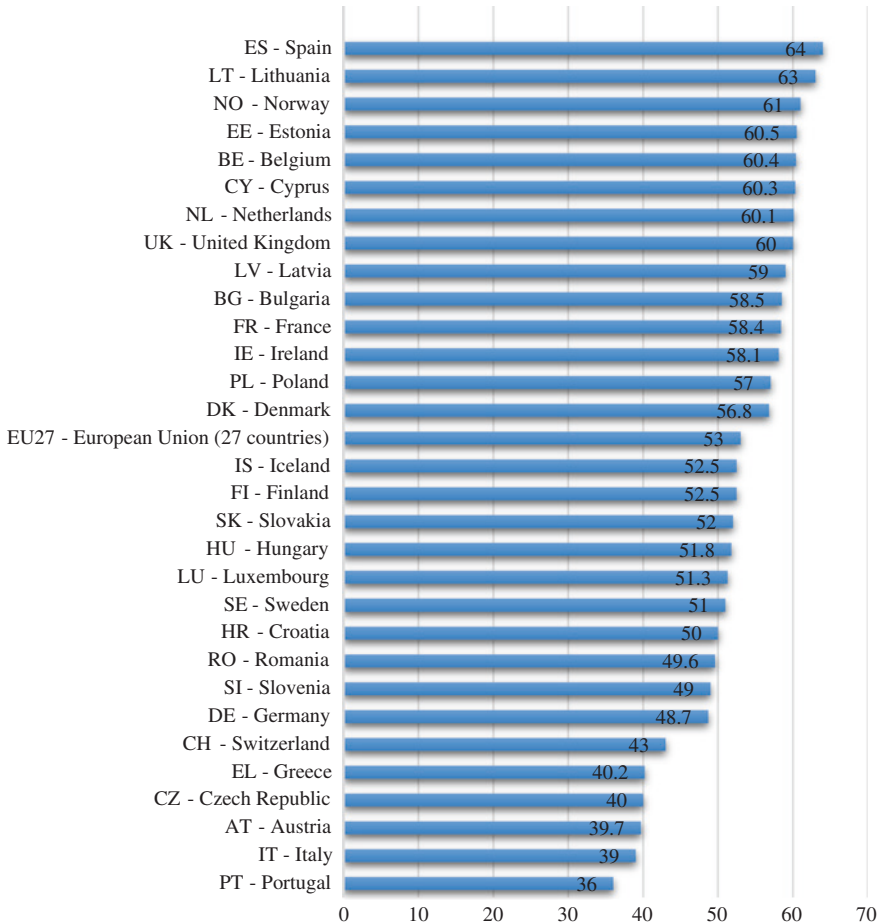
Let us start with facts, and examine a significant example of how local, poorly-employed immobile resources takes shape. One of the most blatant cases concerns the Italians' inability to enhance their artistic and cultural heritage, which is one of the largest in the world (PricewaterhouseCoopers 2009). It appears, in fact, that in Italy there are 43 UNESCO sites (40 in Spain, 37 in China, 33 in France, 27 in England, 20 in the U.S.), 5,500 museums and archaeological sites (8,100 in the U.S., 3,000 in England, 2,300 in Spain, 1,200 in France), 3,274 historic gardens (1,650 in France, 90 in Spain). Despite this host of immobile resources, and despite Italy's talent in preserving and restoring recognized by the PricewaterhouseCoopers and others, Italy's economic return places it among the lowest countries. The return of cultural assets in France and United Kingdom is 4–7 times higher than Italy's. The tourist economy and the cultural and creative industries in Italy account for only 13 % of GDP, far from the 21 % of the best performer, Spain.

It is commonly believed that this significant, well-known, and persistent waste of opportunity<sup>10</sup> depends on scarce public spending. Another study (The European House-Ambrosetti 2010) indicates that in Italy this spending in percentage of GDP is lower than in Denmark, Sweden, Austria, France and, to a lesser extent, United Kingdom. However, it seems that this is not the only explanation for the wasted opportunity. In Italy, public spending in this sector is higher than in Germany and in Spain, where as we have seen, cultural heritage is nevertheless much better valorized. A valuable indication concerning the causes of Italy's poor valorization capacity emerges in a

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<sup>9</sup> Others, eventually, believe that it will be impossible for a common ground to emerge, which the two disciplines can interact on (Sheppard 2001).

<sup>10</sup> Between 1964 and 1967 a Parliamentary Commission of Inquiry operated (appointed by Law 310, April 26, 1964 upon Ministry of Education's proposal), and published its results in three volumes (Commissione Parlamentare 1967). The most important conclusion was a firm and clear compliant about the lack of valorization of the Italian cultural heritage.



**Fig. 3.1** Percentage of employed with tertiary education in the cultural sector, 2009. *Source* Adapted from Eurostat (2011, 71). Cultural sector comprises NACE Rev.2 codes: 58, 59, 60, 90, 91

Eurostat (2011) report. The percentage of people with tertiary education among all those employed in the cultural sector is very low in Italy, as shown in Fig. 3.1.

The low level of education among employees certainly implies a marked lack of professionalism and skills that are probably responsible for poor performances in valorizing artistic and cultural heritage. However, as already pointed out, the same report reveals that in Italy there is no shortage of skills and capacities for the preservation and restoration of artistic and cultural heritage. Indeed, they are often highly qualified. The problem lies in the low level of education and skills of the majority of the staff who manage the fruition of these assets. Why are these complementary skills missing? Answering this question is not an easy task. It is not normal, in fact, for resources of this amplitude, which are potentially able to significantly contribute to the GDP, to be exploited so little.



The first thing to observe is that tourism offers a “product” which actually consists of a whole series of diversified products (Van den Berg et al. 1995), depending on the combination of three elements (Russo and Van der Borg 2002, 633, 637). These are (1) the merit of a specific locality, which is the main reason for visiting it; (2) the quality of the whole complex of facilities and services (transport, hospitality, guidance, and assistance); (3) the quality of accessibility from abroad and to various points of interest within that locality. Given a widespread high level in the merit of specific localities owing to the valuable Italian cultural heritage and natural surroundings, we can imagine, for simplicity’s sake, four diversified products. Two are related to cultural tourism (high and low level), mainly depending on good or bad public sector skills in providing services for the fruition of cultural assets, complementary to good preservation skills. Two are related to generic tourism (high and low level), mainly depending on good or bad private sector skills in providing tourist services as a whole.

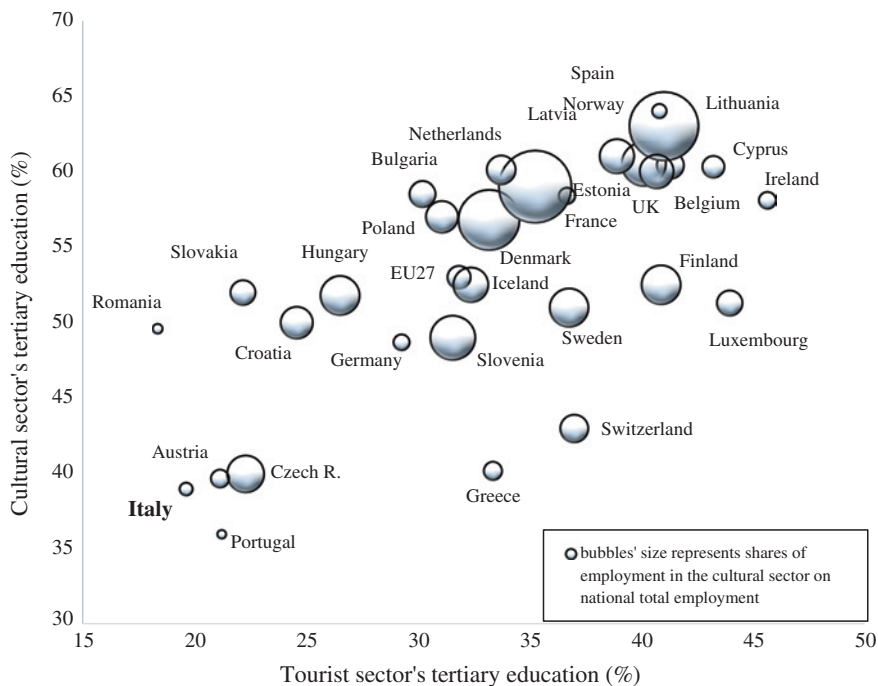
We could imagine that, when the private sector (or public sector) is oriented towards low quality production with low-skilled jobs, this will affect the public sector (or private sector). This layout assumes that there is a link between the level of skills in the private sector and in public services providing cultural heritage fruition, which would explain a low quality in public services with low quality in private services. In fact, we can observe a significant correlation between the share of employees with tertiary education in the cultural sector and in the tourist sector, coupled by a weaker but existent correlation with the cultural sector’s share of employment of total national employment (Fig. 3.2).

On the other hand, a relatively low proportion of graduates characterizes the entire Italian work force,<sup>11</sup> which also affects both tourist and cultural sectors. This proportionality can also be seen in other European countries where tertiary education shares in the cultural heritage, tourism, and general economic fields are all correlated. However, among European countries, the link between the share of workers with tertiary education in the tourist sector and the in the cultural sector is not completely explained by the same share in the economy overall.<sup>12</sup> This aspect emerges in Fig. 3.3.

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<sup>11</sup> The Governor of the Bank of Italy (Visco 2014, 6–7) recently stated that the low percentage of graduates in Italian firms depends on the poor return of the investment in human capital, which has abridged the supply of labor of graduate workers. In turn, such poor return depends on the lack of firms’ innovation capacity related to lack of appropriate skills and of graduates among employees, which makes a circular causation.

<sup>12</sup> In Italy, the percentage of persons with tertiary educational attainment among all employed was 18 % in 2009, when the percentage in the cultural sector was 39 %, a figure that ranked Italy second lowest in Europe. Many other European countries had tertiary education shares in total employment close to the Italian 18 %. They had, nevertheless, a significantly higher percentage of tertiary education in the cultural sector. These countries are Czech Republic with a share of 40 % in the cultural sector, Turkey (48 %), Romania (49.6 %), Slovakia (52 %). On the other hand, among the 13 countries with high tertiary education in the cultural sector (between 64 and 57 %), 3 had a relatively low level of tertiary education in total employment: Bulgaria (28.5 %), Poland (27.7 %), Latvia (31.4 %).

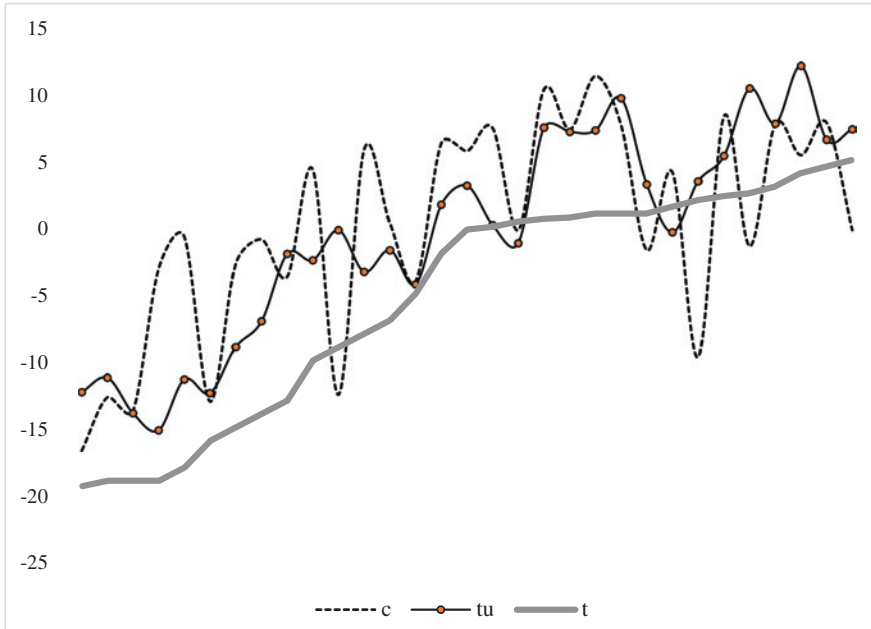


**Fig. 3.2** Shares of tertiary education employment in tourist and cultural sectors, 2009. *Source* Figure obtained by processing data from Eurostat (2011)

This empirical relationship between human capital in the cultural sector and in the tourist sector most likely confirms a *functional complementarity* (McKercher and du Cros 2002; McKercher et al. 2005).

In summary, the causes of the macroscopic Italian case of poor immobile resource enhancement in its artistic and cultural heritage appear to be found in the lack of skills required to achieve a higher quality in fruition services. And this lack of skills appears to be linked, probably through circular causation, to the low ability to offer a high-quality tourist product in the private sector.

At this point a key issue emerges. Why, and according to which *identifiable mechanisms*, are these complementary skills not acquired over time? We might think that a case such as the under-valorization of the cultural heritage in Italy is a rare and exceptional event, a result of very specific Italian contingencies with unique mechanisms. There appears to be no other explanation, considering that these complementary skills would be invaluable for achieving higher returns from existing resources. After all, Hirschman's (1958) concept of backwards and forwards linkages may be considered from a *positive* point of view as well as a *normative* point of view. If we consider, for simplicity's sake, only backwards linkages, we may indeed expect that, in general, whatever a firm needs it will find, as other firms or agents are driven to answer a paying demand.



**Fig. 3.3** Deviations from the medians. Percentage of workers with tertiary education in the cultural sector (*c*), in the tourist sector (*tu*), and in the total economy (*t*)—2009, 30 European countries, and the EU27 in ascending order of *t*. *Source* Figure obtained by processing data from Eurostat (2011)

In the cultural heritage example, one might expect a similar mechanism. The private sector in Italy must have realized that other countries have achieved significant results in the cultural and tourism field over the years. It should have been able, then, to exert the necessary pressure on the public sphere to obtain higher education levels and professionalism of the civil servants involved in the cultural heritage. It might even have offered to help pay for increased costs of public service fruition, as is often the case with various forms of public-private partnerships. This improvement of education levels in the public sector would consequently induce the private sector to improve the professionalism of its own employees. One would think this argument is convincing. If nothing of this kind has happened, the temptation to say that Italy is a unique case that is hard to explain is quite strong.

However, there is another possibility. In the EEG approach, there are elements and suggestions that may be useful in constructing a convincing way to explain why the mechanism is more general. The analytical path will not be short, but in a nutshell we will see how important resources can remain untapped because the behavior of actors is non-maximizing and path-dependent, and interacts with institutions that go on to create narratives that are collectively important and therefore difficult to change.

### 3.2.3 *Non-maximizing Behavior*

If actors were *effective* maximizing agents there would be no immobile resources left permanently untapped. However, an approach that uses the actual maximization (of utility and profit) hypothesis implies that all agents possess in all circumstances (of place and time) all the information concerning resources and constraints which could affect the results of their actions. Note that this problem goes well beyond the issue of cost of information collection and elaboration. Information actually costs. Nevertheless, cost would not be a radical difficulty since, in view of the possible significant results it might produce, agents would be willing to pay whatever it takes to gather and process necessary information.

The obstacle is more serious because, as we shall see in Chap. 5, this type of information is not like other goods. You cannot always buy the information you need, however much you are willing to pay. We may recognize that agents would, in principle, behave optimally according to their values and beliefs, with some or a lot of them wanting to maximize their individual gains. However, we must also recognize that they cannot always do it because they lack all the information they need for this purpose.

Several ways have been proposed to respond to the difficult question which concerns the mechanisms that determine behavior under conditions of a radical lack of information. According to Ron Boschma and Koen Frenken, there are currently two most frequent responses among those who pay particular attention to the spatial dimension. These two responses are institutionalist and evolutionary: «while institutional scholars tend to relate behavior of agents to macro-institutions of territories, evolutionary scholars put primacy on micro-routines of organizations» (Boschma and Frenken 2006, 278). There is no unanimous agreement on this bipartition. MacKinnon et al. (2009), for instance, have argued that it is an «artificial distinction» and have proposed an approach combining institutionalism and evolutionism.<sup>13</sup> This has the aim of analyzing «the development of adaptation strategies at different spatial scales [...] assessed in the context of the social relations between different social actors and groups, raising normative and political questions» (MacKinnon et al. 2009, 145).

A goal of the same kind is proposed for EEG by Martin and Sunley (2014), taking cues from the evolution of evolutionary theory today, that witnesses a shift towards overcoming the modern neo-Darwinian synthesis to reconcile variation-selection-retention and development. In the pages that follow, this framework will be illustrated in a simplified manner by examining the three ingredients that this literature refers to, namely the properly evolutionist component, the institutional component, and the interaction between different processes and actors in a development perspective. This will shed light on the conditions that can be considered at the basis of a permanent state of untapped local immobile resources.

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<sup>13</sup> «We favor the use of evolutionary and institutional concepts within a geographical political economy approach, rather than the construction of some kind of theoretically separate EEG—evolution in economic geography, not an evolutionary economic geography» (MacKinnon et al. (2009, 145).

### 3.2.4 Evolutionary Tools

A first useful consideration may be that, from the outset, scholars who proposed EEG declared explicitly that they drew inspiration from evolutionism, applying the ideas of *variation*, *selection*, and *retention* to social dynamics. They drew especially from Nelson and Winter's evolutionary economics (Steiner and Belschan 1991, 483; Boschma and Lambooy 1999, 413). Martin and Sunley stated: «[...] most of the foundational contributions to EEG have drawn upon Nelson and Winter's argument that in the economic sphere it is business routines that demonstrate the key neo-Darwinian process of variation, selection and replication or retention» (Martin and Sunley 2014, 4). Therefore, it is justified to take the concepts that can be applied here directly from Nelson and Winter's book.

Routines are a central tool. They are «what is regular and predictable about business behavior [...] and] relatively constant dispositions and strategic heuristics» (Nelson and Winter 1982, 15). Routines «imply that it is quite inappropriate to conceive of firm behavior in terms of deliberate choice from a broad menu of alternatives that some external observer considers to be “available” opportunities for the organization. The menu is not broad, but narrow and idiosyncratic; it is built into the firm's routines, and most of the “choosing” is also accomplished automatically by those routines» (Ivi, 134). Firms' economic success perpetuates their routines and disappointing results weaken them. «Profitable firms will grow and unprofitable ones will contract, and the operating characteristics of the more profitable firms therefore will account for a growing share of the industry's activity» (Ivi, 5). Routines also spread through industry by imitation. «Imitation, though costly and imperfect in the individual instance, is a powerful mechanism by which new routines come to organize a larger fraction of the total activity of the system» (Ivi, 135). Routines are formed and changed depending on «factors that hold behavior to the channels of routine [...] and] may be expected to [...] be] the path of least resistance» (Ivi, 134).

Both these concepts and mechanisms, generally conceived, appear to be directly applicable to our examples of cultural heritage exploitation. Following the path of least resistance, it is plausible to imagine that tourist firms in Italy have adopted a strategic practice, a routine, of low quality tourist services because tourists come to such famous places anyway. Firms made money despite their low-quality product, and this perpetuated the practice.<sup>14</sup> It is also plausible to imagine,

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<sup>14</sup> One expert wrote «The problem is that tourism in Italy has enjoyed for a long time in positions of income really outstanding that have fueled a very superficial approach to the sector: made it, it was cheap, why spend?» (Renato Adreoletti 17 marzo 2014, <http://www.hoteldomani.it/il-turismo-internazionale-in-italia-nel-2013>). Another, in the Italian Encyclopedia: «Italy was the first tourist country in the world, was, and partly still is, a natural destination. [...]. And the first response [of underinvestment] must therefore be sought in the weight of the advantageous position: the Italian entrepreneurs are actually sluggish because they rely more on rent factors than to those of enterprise's diligence» (Giuseppe Chicchi, [http://www.treccani.it/enciclopedia/la-politica-del-turismo\\_\(XXI\\_Secolo\)](http://www.treccani.it/enciclopedia/la-politica-del-turismo_(XXI_Secolo))).

therefore, that this routine could change by providing a more qualified service, and by employing more qualified personnel, if economic results deteriorate to a sufficient extent. This deterioration has started to take place in the last few years, but it has not yet led to change. There is something more to deal with. Indeed we must establish what the relationship might be on the institutional side.

### 3.2.5 *Institutions: Definition*

Institutions are often defined in the narrowest sense as rules, norms, and conventions, as proposed by Douglass North<sup>15</sup> who considered institutions «the rules of the game» (North 1990, 3). Hodgson (2006, 18) defines them as «systems of established and embedded social rules that structure social interactions [...]. In short, institutions are *social rule-systems*, not simply rules» (Ivi, 2 and 13). This definition entails that «actor and institutional structure, although distinct, are [...] connected in a circle of mutual interaction and interdependence» (Ivi, 8). Accepting this definition, the issue that emerges is worthy of consideration. That is, how actors and institutional structures *relate* when they interact.

### 3.2.6 *Institutions and Actors*

The various economic geographies all argue that dynamic interaction processes among individual actions, natural and social environment, and institutions, must be placed in the foreground. They differ, however, in many respects, including one relevant feature regarding the greater or lesser *relative prioritization* assigned to the individual or to institutions. As we have seen, Ron Boschma and Koen Frenken consider that Institutional Economic Geography (IEG) may be placed in the field in which institutions are prioritized against individuals. This position finds its origins in Veblen's teaching. Thorstein Veblen (1857 Cato, Wisconsin—1929 Menlo Park, California) had and still has notable influence on the way of thinking of the economy as an “institutional construction”. He was the founding father of institutional economics.<sup>16</sup> He

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<sup>15</sup> Actually, the widespread interpretation that according to North organizations are not part of institutions is not correct, even if it is justified by North's lack of clarity on this point. This is evidenced by the exchange of letters between Douglass North and Geoffrey Hodgson, because of which Hodgson stated: «In saying that “organizations are players” North is making an abstraction rather than defining organizations in this way» (Hodgson 2006, 10).

<sup>16</sup> «The conventional view is that the “founders” of institutionalism were Thorstein Veblen, Wesley Mitchell, and John R. Commons. It might be more exact to say that Thorstein Veblen provided much of the intellectual inspiration for institutionalism, although other influences were also important. Wesley Mitchell was deeply involved in the early development of institutionalism as a definite movement, along with Walton Hamilton, Walter Stewart, and John M. Clark. John R. Commons came into the institutionalist picture a little later, after 1924» (Rutherford 2001, 174).

observed that individual actors have generative but also destructive potential,<sup>17</sup> and are governed by institutions that emerge for this purpose although they have their own dynamics and internal logic as well.<sup>18</sup> Therefore, they are not always functional to the common good. Bad institutions will not spontaneously disappear, nor will good institutions spontaneously take their place.<sup>19</sup> Being long lasting, institutions affect, for better or for worse, individual current actions (Veblen 1898, 386–387). This does not imply, however, «a methodological collectivism where individual behavior is entirely explained by the institutional or cultural environment. Complete explanations of parts in terms of wholes are beset with problems of equivalent stature to those of the inverse procedure. Just as structures cannot be adequately explained in terms of individuals, individuals cannot adequately be explained in terms of structures» (Hodgson 1998, 172). You could say that, considering the importance attributed to the persistence of habits that draw strength from institutions, Veblen and the original institutional economics, while refusing a one-pole position, sustain a position closer to the pole opposite to individualism.

However, this position leaves room for different degrees of influence of institutions on individuals. An upper limit EEG probably did not reach is that of the institutionalism inspired by John Rogers Commons (Hollansburg, Ohio 1862—Fort Lauderdale, Florida 1945).

If we endeavor to find a universal circumstance, common to all behavior known as institutional, we may define an institution as collective action in control, liberation, and expansion of individual action. Collective action ranges all the way from unorganized custom to the many organized going concerns, such as the family, the corporation, the trade association, the trade union, the reserve system, the state. The principle common to all of them is greater or less control, liberation, and expansion of individual action by collective action (Commons 1931, 648).

The concept appearing in this definition that characterizes Common's view is "collective action", which exists *aborigine*, as well as individual will and action. In

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<sup>17</sup> «Veblen saw a type of dialectical linkage between the positive and negative instincts, in which they influence and conflict with each other, providing Veblen with an important source of human action, change and motion. [But] as he said, "the evolution of economic life in the industrially more mature communities has now begun to take such a turn that the interest of the community no longer coincides with the emulative interests of the individual" (Veblen 1899, p. 153)» (O'Hara 2002, 81–82).

<sup>18</sup> «Institutions are not only themselves the result of a selective and adaptive process which shapes the prevailing or dominant types of spiritual attitude and aptitudes; they are at the same time special methods of life and of human relations, and are therefore in their turn efficient factors of selection» (Veblen 1899, 188). «Veblen did not maintain that the mere appearance of some new technology would directly bring about the new institutions that would allow for the full effect of technological progress. He recognized an institutional stubbornness, making economic growth a strained and often broken process» (Ford 2011, 8).

<sup>19</sup> «Veblen's theory of cultural evolution can be described as one of institutional drift, while Hayek's theory as one of efficient selection of institutions. In the Veblenian theory, new institutions cannot be predicted to be any more efficient than those displaced» (Wood and Woods 1991, 71).

Commons, the collective action takes on a teleological nature<sup>20</sup>; collective action and institutions are an original element, aroused by the primitive and ever-present need to manage conflict.<sup>21</sup> Veblen, on the contrary, believes that development did not have a predetermined direction. It seems he was «the first thinker to introduce to social sciences the idea of human history as an evolving process of change with neither predetermined end, nor a specific pattern of development» (Liagouras 2009, 4). It is true, however, that both these perspectives agree that institutions *are not* “unintended consequences” of interaction among individual that may give rise to a “spontaneous order”. Normally institutions depend on other institutions, and this is the proof that «concepts of self-organization or spontaneous order are insufficient for an understanding of all institutions» (Hodgson 2006, 13). On this point, EEG distanced itself from David Hume’s teaching, which was followed especially by the Austrian School of Carl Menger (Nowy Sącz 1840—Vienna 1921) and—later—by Frederick August Von Hayek (Vienna 1899—Freiburg 1992). David Hume (Edinburg 1711—Edinburg 1776) argued that institutions are not the result of a design, but of an evolutionary mechanism able to stand alone and work with no higher ordering principle, based on the infinite interactions among individuals who are interested in personal gain but appreciate, and therefore reproduce, those rules that are useful to all (mutually beneficial).<sup>22</sup>

### 3.2.7 *Institutions’ Functioning*

While it is now clear what EEG does not agree upon, we have not yet defined what its claims are, regarding the strength of institutions’ influence on individual actors and how these affect institutions. Clarifying the functioning of institutions

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<sup>20</sup> «Institutional economics openly avows scarcity [...] and gives to collective action its proper place of deciding conflicts and maintaining order in a world of scarcity, private property, and the resulting conflicts. I make conflict of interests predominant in transactions. But I conclude that this cannot be allowed to be the only principle, because there are also mutual dependence and the maintenance of order by collective action [...]. Harmony is not presupposition of economics—it is a consequence of collective action designed to maintain rules that shall govern the conflicts» (Commons 1934, 6).

<sup>21</sup> «There is a profound discrepancy [towards Veblen] in the work of Commons, mainly deriving from the eternal and self-correcting character of collective human will. Collective human will exists per se constituting a trend of humanity; thus it is infused to human beings from their very birth [...]. It is the expanding nature that makes it independent of individual action; but individual action depends on the collective one» (Papageorgiou et al. 2013, 1238).

<sup>22</sup> «[A] major argument of Hume is that social institutions are largely unplanned, they are products of social evolution. [...]. In the phrase of Adam Ferguson [...], writing a quarter-century after Hume, many of our institutions are “the result of human action, but not the execution of any design”. In the twentieth-century, the strongest advocate of the thesis implicit in this phrase is F. A. Hayek [...]. When Hume generalizes [...] he can say individuals would tend to approve general laws and institutions that would be in the interest of everyone. That is to say, his public vision is of the mutual advantage of all» (Hardin 2008, 4–5).



is the best way forward. As part of an evolutionary approach, Geoffrey Hodgson proposes a concept of institutions that sees them as related to *habits*. «A habit is a disposition to engage in previously adopted or acquired behavior or thoughts, triggered by an appropriate stimulus or context. [...]. Habits are the constitutive material of institutions, providing them with enhanced durability, power, and normative authority. In turn, by reproducing shared *habits of thought*, institutions create strong mechanisms of conformism and normative agreement. [...]. [The] interplay of behavior, habit, *emotion*, and *rationalization* helps to explain the normative power of *custom* in human society» (Hodgson 2006, 6 and 7; italics added). It seems appropriate to interpret this framework as an idea of institutions that conceives ways of thinking that are habit-consolidated to the extent that they are constructs with emotions and rationality. This could be the definition of “*narratives with a sense*”.

This particular reading of the Hodgson’s lesson seems even more relevant considering the expression «reconstitutive downward causation» Hodgson used in the same essay, and his recent fine-tuning of this expression. He conceives the functioning of institutions as «involve[ing] reconstitutive downward causation, acting to some degree upon individual habits of thought and action. The existence of reconstitutive downward causation does not mean that institutions directly, entirely, or uniformly determine individual aspirations, merely that there can be significant downward effects» (*Ivi*, 7). If institutions affect but do not determine individuals’ behavior, it is more expressive to think that they do it through *narratives*. Narratives are not rules in a strict sense. Notwithstanding, they are highly effective in shaping behavior through persuasion. By proposing narratives, institutions acquire greater persuasive capabilities because they can affect the very reality individuals perceive. «“Reality” [is ...] a product of disciplined imagination, shaped and guided by conventions for selecting, organizing, and testing experience against agreed-upon criteria» (Bruner 2005, 56).

On the other hand, Martin and Sunley (2014) (but also Weber 2011) call for the use of concepts and mechanisms inspired by the *dynamics of complex adaptive systems* in order to give more space to the efforts already made in this direction by EEG (Storper 1997). Some relevant applications to humans of complex adaptive system dynamics have placed narratives in a central position. Lane and Maxfield (1995), for example, after presenting a case study on «what happened when ROLM, a small California computer company, decided to enter the PBX<sup>23</sup> market in 1973», concluded: «To succeed, even survive, in the face of rapid structural change, it is essential to make sense out of what is happening and to act on the basis of that understanding. [...]. Hence our conclusion [is] that the first and most important strategic requirement [...] is the institution of interpretative practices [...] wherever there are agents that initiate and carry out interactions with other

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<sup>23</sup> «A PBX is a private telecommunication system that manages an organization’s incoming, outgoing and interoffice telephone calls. It connects outside lines that are provided by the local telephone company» (Lane and Maxfield 1995, 9).

agents» (Lane and Maxfield 1995, 36). In general, «since the global level of all complex adaptive systems contextually constrains the behavior of the components that make it up, I postulate that behavior [...] as characterized by consciousness and meaning, originate, regulate, and constrain processes such that the resulting behavior satisfies the meaningful content embodied in the complex dynamics from which it issued. [...]. By showing the dynamics of complex adaptive systems, hermeneutical narratives are uniquely suited as the logic of explanation of these strange-loop phenomena» (Juarrero 2000, 27 and 48).<sup>24</sup>

The same literature notes that narrative function of institutions is linked to the emergence of *social identity*. «Far from representing messy, noisy complications that can be safely ignored, time and context are as central to the identity and behavior of these dynamic processes as they are to human beings. [...]. [...] the increased probability that a real system will occupy a particular state can be represented as wells [...] that embody attractor states and behaviors that system is more likely to occupy. [...]. Once organized, a system's attractor serve as its formal and final cause, both preserving its identity and drawing behavior into its overall organization» (Juarrero 2000, 27, 41, 46). Note the important link this sentence establishes between identity, attractor state, and final cause. It means that the final cause as attractor supports and justifies a specific story, which can then be revised if the revision better serves the ultimate goal in changed conditions.

We can thus derive that EEG's approach is compatible with institutional ruling *by narratives able to preserve collective identities*, and that a specific narrative can be revised, in changed conditions, to *better serve* this goal.

It is then plausible in an EEG set-up that Italian cultural heritage institutions developed a narrative that their heritage deserves conservation and study by specialists, rather than of the vast public. It is also plausible that this was due to the amplitude of the heritage, which denotes a national identity.<sup>25</sup> It is moreover conceivable that this story may switch toward a broader audience, if economic return increases and allows actors to better achieve their fundamental aim, i.e. the preservation of cultural heritage as national identity. Increasing returns, entailing more revenues, would allow conservation activities to be better paid and thus improved. They would also allow more, better qualified operators to work. Thus, a new narrative—seemingly only slightly different from the previous one—would begin to

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<sup>24</sup> Lane and Maxfield mention Ricoeur to indicate the principles that inspired them (Lane and Maxfield 2005, 9), Alicia Juarrero cites Hans-George Gadamer (Marburg 1900—Heidelberg 2002) that cites Heidegger. Paul Ricoeur (Valence 1913—Châtenay-Malabry 2005) recognized Edmund Husserl (Prostějov 1859—Freiburg im Breisgau 1938) among his teachers and Martin Heidegger (Meßkirch 1889—Freiburg im Breisgau 1976) were his assistant.

<sup>25</sup> One expert, Salvatore Settis, classical art historian, wrote: «Cultural heritage is not just the sum of its monuments, museums, natural beauty; but above all, their forming a whole, whose binder I would not know a better way to call that “national tradition” or “national identity”, that is the awareness of one's heritage, and its unity and uniqueness requires to be *preserved in situ*. [...]. [This is] an ancient and deep-rooted *institutional* culture, the sense of experience and founder of the Italian identity of the Republican Constitution, the shared pride of belonging, of being a citizen of this country» (Settis 2002, 9; italics added).

be told. The new message could become that *although cultural heritage should mainly serve scholars, it should also have an educational function*. It remains to be seen how this evolution can interact with the possible evolution of the private actors' routines.

### 3.2.8 Interaction

The question of conflict and negotiation, and thus of intentionality and power, is primarily located in the interaction of actors and between actors and social and institutional structures. «A developmental, complex systems perspective on spatial economic evolution would assign importance [...] to the dynamics [...] that produces the components which in turn continue to maintain the organized structure that gives rise to those components. [...] [...] in the socio-economic realm [this] is the complex outcome of the intentional behaviors and learning of economic agents pursuing their own objectives. In so doing some agents may possess and exert more influence and power than others» (Martin and Sunley 2014, 11).

Here we are especially interested in the analysis of modes of interaction in order to understand under what circumstances the status quo is preserved, even though it is or has become inefficient, and which circumstances bring about change by *changing narratives*. The above-mentioned work of Lane and Maxfield (1995) offers useful suggestions in this regard. As we have already said, it is placed in the context of concepts and mechanisms related to the dynamics of complex adaptive systems. In this context, they define the conditions for actual change, a real opportunity for significant improvement having already been manifested. The change in structures and operations will take place by means of interaction between actors and institutions at the same time shaping meaning. Conditions are (1) heterogeneity, (2) aligned directedness, (3) permissions, (4) mutual directedness and action opportunities.

*Heterogeneity* «requires that the participating agents differ from one another in key respects. They may have different competences, attributions, or access to particular [resources] [...]. Combining different competences can generate new kinds of competence that then reside in the relationship itself» (Lane and Maxfield 1995, 32). In the cultural heritage example, this condition is guaranteed by the assumption that private and public agents are both involved, and they have different competences, attributions, and access to cultural heritage. This condition is not guaranteed in general. Though rare, there may be situations in which little or poorly exploited resources belong exclusively to an actor by acquired rights or by tradition or expertise. In these cases, change is very difficult because there is no comparison between different ways of seeing with respect to consolidated ways of seeing and acting. It is as if the resources were not there.

*Aligned directedness* means that «participants in the relationship need to orient their activities in a common direction» (*Ibidem*, 32). In the cultural heritage example, this condition is guaranteed by the assumption that for all the actors

involved—public and private—there is a positive relationship between desired investment in cultural sector professionalism and its expected return. This is not an assumption that can be valid in general. There may be circumstances in which some important actors, without which it would be difficult to do anything, are opposed to change. This is, therefore, the *first situation* where resources and opportunities remain *untapped*.

*Permissions* mean that «relationships are based on permissions for the participants to talk to one another about particular themes in particular illocutionary modes (requests, orders, declarations, etc.). These permissions are explicitly or implicitly granted by superordinate agents and social institutions. Unless potential participants in a relationship have appropriately matched permissions, or can arrogate these permissions to themselves, the relationship's generative potential is blocked» (Lane and Maxfield 1995, 33). In the cultural heritage example, this condition may be fulfilled as in recent years a common feeling is emerging among not only private actors but also public officials and specialists on the need for better promotion and fruition in the cultural heritage. For example, 2,000 experienced operators, mostly public, who responded to an online questionnaire, showed clearly the primary objective of sharing public-private development projects (Forum Pa 2012). This indicates that in the public sphere the idea of exclusive responsibility for this heritage has now been superseded. The pamphlet by Salvatore Settis, written in protest against the attempts of cultural heritage privatization, supports its economic valorization. Again, this condition is not guaranteed in general. In many situations there is strong opposition not only to this or that project of change, but to any change that upsets traditionally established social order. This is often the case when a territory is dominated by criminal organizations, but it also occurs when a strong local identity feels besieged and threatened by external forces and actors, no matter how well intentioned. This is the *second situation* where there is inefficient use of resources, besides being a specific problem, which hinders the rule that place-based policies require an external component.

*Mutual directedness* means that «agents need more than common interests and different perspectives to form a generative relationship. They also must seek each other out and develop [...] trust [...] as participants come to realize the unforeseen benefits that the relationship is generating» (Lane and Maxfield 1995, 33). On the other hand, this realization requires *action opportunities*. «Engaging in joint action focuses talk on the issues and entities of greatest interest—those around which the action is organized. And action itself reveals the identities of those engaged in it. In addition, new competencies emerge out of joint action, and these competencies can change agents' functionality and hence identity—even leading to the formation of a new agent arising from the relationship itself» (*Ibidem*, 33). This is probably the reason why many good intentions and projects, with a repeated rhetoric,<sup>26</sup> have not yet produced significant results in enhancing the cultural heritage in Italy.

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<sup>26</sup> A Google query, end of 2014, with all these words «migliore valorizzazione patrimonio culturale italiano [better valorization Italian cultural heritage] produced 567,000 results.

Mutual directness and action opportunities imply that the example offered by other countries as well as application of formulas and “best practices” are not enough. Concrete specific place-based *experiences* are required instead, which enable different actors to get to know one another and achieve something worthwhile. This is the *third situation* of untapped resources.

This account summarizes the obstacles to be overcome in order to change narratives beside changing private actors’ routines for the use of local untapped resources. The obstacles are: (1) the opposition of those who have no interest in a specific or any change, conflicting with those who are willing to change; (2) the lack of mutual experience between actors of innovation. So we see that, even when there are significant gains from improved use of resources and many would like to make these gains, change is difficult because these resources are “trapped”. The experience of change, that would support both the change of routines and the change of narratives, is apparently possible only after a previous experience: a trap. Those interested in the status quo are therefore well placed to win the game against those who want change.

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