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The Marshallian industrial district and inclusive urban growth strategy

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Abstract This article is aimed at linking industrial district theory with inclusive urban growth strategies. The recent growth model of capitalism is here characterised by two complementary theories: Becattini's industrial district theory and Piketty's studies on capital in the twenty-first century. It is argued that an integrated approach consisting of both those theories with theories of the city allows new strategies of inclusive urban growth to be addressed. The approach based on industrial district theory allows action on the distribution of income through productivity increases, based on the generation of increasing returns obtained through Marshallian external economies of an urban nature in assemblies of socio-territorial communities, resulting in a more inclusive path towards urban growth.

Keywords Industrial district · Inclusive urban growth · Inequality · Agglomeration economies

JEL Classification B2 · I13 · O1 · P1 · R1

Dedicated to the memory of Giacomo Becattini.

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1 Introduction

One of the aspects of industrial district theory still little discussed is its relation with the city as a socio-economic entity and with theories that study the city. Building this ‘bridge’ is a task of enormous difficulty that can hardly be solved in an article. In this article, we contribute to this bridge by exploring one of its most urgent and relevant aspects: the relationship between the industrial district and inclusive urban growth.

Piketty’s recent book *Capital in the Twenty-First Century* (Piketty 2013) has proven that inequality in income distribution has steadily increased since 1975, leading to a greater concentration of income in wealthier segments of the population. He argues that this tendency is a feature of the capitalist system and refutes the Kuznets curve hypothesis that, in advanced stages of development, inequality tends to decrease, thus reopening the debate on capital accumulation and class conflict posed by Marx in the nineteenth century.

Although ignored in Piketty’s work, the concentration of wealth and the increase of inequality have a clear geographical component. The world’s biggest cities and metropolises not only contain the majority of the population, production, and economic growth, but also the greatest numbers of rich and poor people, showing increasing inequality (Henderson 2010; OECD 2016; Florida et al. 2016; Florida and Mellander 2015). The problem of inequality is not only a problem of classes but also, first and fundamentally, an urban problem. Strategies to increase economic growth and decrease inequality must necessarily have an urban and inclusive perspective.

Urban areas are characterised by the generation of a large number of economies of agglomeration and by a highly specialised division of labour (Trullén et al. 2013). Economies of agglomeration are well known to urban theory and industrial district theory. Agglomeration economies are usually divided (Trullén et al. 2013) into internal and external. Internal economies of agglomeration are related to the concentration of production in big firms and corporations. External economies of agglomeration are due to the concentration of people and production in the territory, and are usually divided into Marshallian economies related to the localisation of production (hereafter ‘Marshallian external economies’) and economies of urbanisation (see Sforzi and Boix 2015, for some nuances in the terminology).

The organisation of production and economies of agglomeration are not only at the basis of the mechanism of urban economic growth but also at the basis of the mechanism of unequal accumulation of income and wealth. The relationship between economies of agglomeration and growth has been widely studied and is recognised as a cause of inequality between territories. However, the relationship between economies of agglomeration and household inequality has hardly been studied (see Kim 2008 for an introduction to both aspects).

The economies of agglomeration have important effects, not only on the mechanism of production but also on that of ‘pre-distribution’, that is ‘the way in which the market distributes its rewards in the first place’ (Hacker 2011, p. 35). There is incipient evidence (see OECD 2016; Florida et al. 2016; Castells-Quintana and Royuela 2015) to suggest that the pre-distributive mechanism in big cities favours inequality and that this fact is related to two types of economies of agglomeration: internal economies related to the size of a firm, and external economies of urbanisation related to the size of a city. On the contrary, Marshallian external economies that rule production in industrial districts would favour more balanced pre-distribution mechanisms (Becattini 2015a). The effect of economies of urbanisation linked to social and productive diversity (usually referred to as 'Jacobs urbanisation economies') is less known.

The goal of this article is to link industrial district theory with inclusive urban growth, identifying the role that industrial district theory can play in the design of new, inclusive urban growth strategies and emphasising its balanced, pre-distributive nature.

The article is divided into four parts. Section 2 describes the growth model followed by capitalism in the twenty-first century and the role of the city in the design of inclusive growth models. Section 3 develops the linkages between inclusive urban growth and industrial district theory. Finally, Sect. 4 is devoted to the conclusions.

2 From unequal economic growth to urban inclusive growth

Piketty (2013) identifies two conclusions that are central in the analysis of the evolution of inequality in the distribution of income and wealth and its relation to economic growth. The first conclusion is that we must be wary of all historical determinism (Piketty 2013, p. 47):

> L'histoire de la répartition des richesses est toujours une histoire profondément politique et ne saurait se résumer à des mécanismes purement économiques.

The second conclusion is that, in the dynamics of the distribution of income and wealth, two types of forces operate simultaneously: those that tend towards convergence and those that tend towards divergence. However, it is the fundamental force of divergence that predominates: the rate of return on capital is significantly higher than the general rate of growth of the economy.

Piketty contrasts the relationship between capital and income in 1870 with the relationship in 2010. He obtains a U-shaped curve, which indicates that the relation postulated by Kuznets and by Williamson on the reduction of inequality in advanced stages of the development of countries is no longer valid, and that there has been an intense process of concentration of capital since 1975. Since then, the rate of return on capital (including profits, dividends, interest, rents, and other capital incomes) has far exceed the rate of economic growth.

Consequently, in the long run, there has been a very low growth of aggregate productivity and a worsening in the distribution of income. This greater inequality would be due to two reasons: the concentration of wealth in a narrow stratum of the population (the 1%) that controls an increasing proportion of the capital; and the polarisation within the rents of wage earners, with the growing pressure of leading cadres to the detriment of unskilled workers.

Let us focus on identifying the explanatory causes of the growth in inequality in the last 40 years. First, there has been an unprecedented growth in a part of the labour income: the incomes of the leading cadres of large enterprises. This would be due to two reasons: one, less significant, which would include the growth of the qualification of these leading cadres and another, more significant, which notes that these leading cadres are able to set their own remuneration, often without taking into account productivity gains. A second key feature of this process is that it basically affects large corporations. This evolution is observed mainly in the United States and Great Britain, and in a more limited, but also intense way in Japan, Germany, France, and other continental European countries.

So far, one could conclude that the contemporary economy is inexorably moving towards a blockage in economic growth and a deterioration in the distribution of income. Piketty departs from this interpretation and suggests different ways that could counterbalance this trend. Faced with a protectionist exit, capital must be globally regulated to prevent the stagnation of investment and productivity, and a ‘new Social State’ reforming the old Welfare State should also be built. One must flee from all determinism and strengthen the path of public policies as a correction mechanism. Piketty proposes a global tax on capital, controls on international finances, a rethink of income tax that reinforces its progressive character, and a focus on training and human capital. It is about acting on the forces that tend towards convergence and stopping and correcting the forces that act on divergence, in order to act on the functional distribution of income both within firms and in the distribution of surpluses between labour and capital incomes.

However, Piketty’s analysis completely ignores the spatial dimension of economic processes. The urban space, especially in big cities and metropolises, is increasingly the context where the relationship between productivity growth and distribution of income and welfare is most strongly manifested. The city is expanding its economic and demographic weight, and, in the new scenario of the globalised economy, not only companies but also cities compete (Camagni 2002). A strategy that allows progress in terms of economic growth, and at the same time raises equity objectives, should have an urban vision. The role of cities in a new model of ‘inclusive growth’ becomes fundamental. Inclusive growth is defined as growth that ‘creates opportunities for all segments of the population to participate in the economy and that distributes the dividends of increased prosperity fairly across society, both in monetary and non-monetary terms’ (OECD 2016, p. 16).

From what perspectives is the city an essential part of a new model of inclusive growth? The answer to this question cannot be unidirectional. The relationship between productivity growth and the city is as broad as the typology of economies of agglomeration and urban planning proposals. For the purposes of our argument, we will highlight, among the historical studies that have raised this question, those of Ebenezer Howard on garden cities (Howard 1898). These studies also relate to the industrial district theory set out in Alfred Marshall’s thought and to Jane Jacobs’ works that aim at equity goals and stress the importance of the economies of social diversity (Jacobs 1961, chapter 8). At the urban level, concern about the design of inclusive growth policies is the last link that culminates a long chain of urban policies (OECD 2016, p. 17). An 'inclusive urban growth strategy' should have goals for well-being, not just for income and wealth.

The fundamental challenge of an inclusive urban growth strategy is to achieve productivity growths based on external economies that allow a balanced pre-distribution of these gains. The key question is: 'What types of external economies?' While some cities, particularly in the US, have increased their levels of inequality and segregation (Florida and Mellander 2015), there are inclusive trajectories in other cities, such as Barcelona (Trullén 2015), that have achieved significant increases of income and employment with improvements in income distribution over extended periods of time. Mechanisms such as the internal economies of agglomeration related to the size of firms, and such as the external economies of urbanisation related to the size and density of cities, have been identified as drivers of differential competitiveness and productivity growth, but also as pre-distributive drivers of inequality (see Henderson 2010; Castells-Quintana and Royuela 2015; Florida and Mellander 2015; Florida et al. 2016).

We will explore in the following section how the strategy of strengthening Marshallian external economies constitutes a difficult but passable path towards a new economic model capable of bringing together economic growth and equity.

3 Industrial district theory and inclusive urban growth strategy: targeting growth through the promotion of Marshallian external economies

The industrial district is a social system of organisation of production. According to its classical definition as a socio-economic notion, the industrial district is

> a socio-territorial entity which is characterised by the active presence of both a community of people and a population of firms in one naturally and historically bounded area (Becattini 1990, p. 38).

In the industrial district, 'community and firms tend to merge' (Becattini 1990, p. 38), and

> the most important trait of the local community is its relatively homogeneous system of values and views, which is an expression of an ethic of work and activity, of the family, of reciprocity, and of change (Becattini 1990, p. 39).

The industrial district is a system of production for generating increasing returns based on small and medium enterprises (SMEs) and Marshallian external economies (defined as external economies deriving from the place where production occurs instead of from the sector). The concept of industrial district explains how a local community dominated by small entrepreneurs, specialised in producing parts or in manufacturing phases of the same product, achieves economies of production through cooperation. The cooperation is made possible by a common system of values and beliefs shared by the local population, which generates mutual trust while giving importance to the value of reputation in life and in business, and which facilitates the exchange of productive knowledge (Becattini 1990; Sforzi and Boix 2015).

Based on Marshallian external economies, this kind of industrial organisation can be as competitive as a large and vertically integrated firm when it comes to satisfying the desires of groups of consumers in the world for variety and distinction—that is, when the demand for certain classes of goods differs from place to place and/or over time—and for which the production process can be technically partitioned (Sforzi and Boix 2015). Competitiveness is based not only on the ability of industrial districts to achieve the same efficiency in costs that big firms achieve, but also on technical progress based on a system of learning, knowledge-sharing, and acceleration that allows an intense generation of innovations (Bellandi 1992; Boix and Trullén 2010).

The industrial district is a balanced pre-distributive place by definition. The organisation of production—based on local SMEs, a multiplicity of local entrepreneurs, horizontal mechanisms of spin-off (worker-to-entrepreneur) and reversal spin-off (entrepreneur-to-worker), and local institutional mechanisms of social reward and penalty—prevents an extremely unequal accumulation of income. Becattini (2015a) focuses on the industrial district as a model of 'capitalism with a human face'. In the industrial district, labour productivity generated through external economies does not depend on the big firm or the sector but on the local environment in which the firm operates—a choral (collective) subject (Becattini 2015b)—and on the characteristics of the productive process in terms of technical production and commodities. These productivity improvements are addressed to ultimately satisfy the necessities of the local community.

Industrial district theory proposes an approach to economic development in which the engine for the development is neither the nation state, nor the firm, but 'a group of people within a stable and self-reproducing community' characterised by 'place consciousness' (Becattini 2015a). The world can be then interpreted not as a collection of nation states but as a multitude of industrial districts, proto-industrial districts, and other types of productive places (e.g. those dominated by large firms) (Becattini 2015a).

This point of view is similar to the interpretation of cities and metropolitan areas as assemblies of places (see De Landa 2006), where some have the features of manufacturing places (e.g. industrial districts), others of service-oriented places (e.g. business districts), and so on (Trullén et al. 2013).

There is an opposing interpretation of cities, where the notion of 'place' is deprived of its sense of community to become a 'non-place'. This is defined in terms of the location of the economic activities of individual firms, of sectors, and/or of clusters of firms. The city is of primary economic interest because of its capacity to generate economies of agglomeration, and as a vessel for consumers and the labour force as a productive, mobile, flexible factor. In this interpretation, the city is made of economic functions and non-places (Magnaghi, in Becattini 2015a, p. 137). Places become 'liquid' in the sense used by Bauman (2000), or they begin a process of social disintegration, of 'becoming powder' (in Italian, *sfarinamento,* Becattini 2015a). The mechanisms of accumulation become invisible for the individual isolated from the community. There is pre-distribution of income, but this pre-distribution is unbalanced, facilitating the concentration of rents in the hands of a few firms and individuals. The city becomes an artefact for extracting and channelling the surplus from one income group to another (class consciousness).

4 Conclusions

Since the last quarter of the twentieth century, many national economies have showed low economic growth rates of production, productivity, and employment, accompanied by growing inequality. New economic growth strategies are needed that respond to the challenges of globalisation, and that are based not on the search for competitive devaluations by means of wage reductions or other neo-protectionist recipes but on increases of productivity and balanced income distribution.

We argue that these strategies must necessarily have an urban perspective. Institutions such as the OECD are promoting new economic growth strategies that adopt a more inclusive approach (OECD 2016; United Nations 2017). The trend towards the economic integration of places puts cities in general, and metropolises in particular, in a strategic position. The development of economies of agglomeration is a way to achieve productivity gains, but some types of economies of agglomeration also foster mechanisms of unequal pre-distribution. The objective is to identify ways to increase urban productivity together with a more equitable income distribution.

We also argue that an integrated approach to Piketty's (2013) theory of capital accumulation, Becattini's (1990) industrial district theory, and urban theory allows us to approach inclusive growth strategies with new perspectives. A consequence is also pointed out: the role of the city is decisive in successfully tackling inclusive growth strategies. Economies of agglomeration based on the vertical integration of production, such as internal economies related to the size of a firm and external economies based on the size and density of a city, are recognised as being at the root of a significant part of inequality. We propose to address the challenges of globalisation in another way: activating urban policies that boost productivity by enhancing external economies based on the horizontal integration of production (such as Marshallian external economies); implementing policies based on cities as systems of SMEs, open to external competition and embedded in socio-economic communities of people; and promoting wage and productivity growth, as in industrial district economies.

This 'bridge' between industrial district theory and urban theory proposes a radical redefinition in the organisation of cities and metropolitan areas, rejecting the current formula for obtaining economies of agglomeration by increasing both the size of firms and corporations and the size of cities, and rejecting urban planning based on the functional and social segregation of spaces. Instead, we propose a vision of the city as assemblies of 'district places' (manufacturing, services, or hybrids); in other words, a system of choral socio-territorial entities, each one with its own consciousness of place, sharing a system of values and views, an ethic of work, activity, family, reciprocity, and change.

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