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*Italy*

**Introduction**

For the past two years I've been immersed in what is one of the most important and large-scale experiments in alternative local development in an advanced industrial society.

Two-and-a-half years ago I was working at the Center for Labor and Community Research in Chicago, directed by Dan Swinney. When I expressed interest in going back to Italy to do post-grad work, Dan suggested focusing on Bologna. Bologna is the capital of Emilia-Romagna, Italy's most prosperous and economically dynamic region. Emilia-Romagna—with its left governments, vibrant network of small firms cooperating and competing in flexible networks, and perhaps the world's strongest cooperative movement—was an important model of democratic and sustainable development, that we needed to learn much more about.

In August 2003 I left Chicago for Bologna, armed only with a guide to the history of Emilia-Romagna and two contacts: Francesco Garibaldi of the region's Institute for Labor and Professor Stefano Zamagni, leading academic in the civil economy and director of the University of Bologna Master's Degree in Cooperative Economics.

I spent my first year working as a researcher at the Institute for Labour, doing work mostly on the private sector. The Institute for Labour is a research institute, founded and partly funded by the regional administration, that works with business and labor to implement high road, participatory forms of work organization. Working at the Institute for Labor I was able to gain first-hand knowledge of the regional development model through meetings with labor leaders, entrepreneurs and managers, as well as key policy makers.

And since September 2004 I've been enrolled in the Master's Degree in Cooperative Economics, studying the cooperative movement with Italy's top cooperative managers and academics. What I've discovered through the master's program, extensive case-studies on cooperatives and meetings with top managers and leadership is an extremely complex, dynamic and economically vibrant system based largely on worker ownership. Often the cooperatives—as is the case in manufacturing, construction, services, farming and retail—are among the market leaders in Italy, and the largest firms in the region. Many of the region's large manufacturing co-ops are leaders globally in their field as well.

As I dig deeper into local development here, through interviews with top policymakers, labor, business and the cooperative movement, I am more and more convinced of the importance of Emilia-Romagna as a model of sustainable local development, one that combines the market, participatory planning and economic democracy.

**The Emilian Model: Main Features and Results Achieved**

Following World War II, Emilia-Romagna's economy was in a shambles. What industry that did develop prior to and during the war was in deep crisis. The end of the war forced the region's plants into massive layoffs. The workforce was overwhelmingly agricultural, dominated by sharecroppers and landless peasants. In addition, agriculture was very backwards. Landowners were loathe to industrialize or make improvements to the land. And with the end of the war, the partisans came flooding back into the cities, only increasing the levels of unemployment and the strains on an underdeveloped economy. Immediately following World War II, Emilia-Romagna was one of the last regions in Italy in terms of standard of living.

Today, Emilia-Romagna is one of the top 20 most prosperous regions in Europe. Emilia-Romagna has the highest per capita income in Italy and the most equitable distribution of wealth: wages are high, and the difference between rich and poor is lower than anywhere else on the peninsula. Unemployment is just 3.7%, hovering above 2% in some of the more prosperous cities. A region of just 4 million people, there are 300,000 firms, with an average firm size of 5 employees, slightly higher in manufacturing. Large firms, employing more than 250 people, make up less than 1% of total firms. Emilia-Romagna's manufacturing base is very strong, and has continued to expand over the last two decades, despite trends to the contrary in other advanced economies. This has allowed for the development of an advanced service sector that, connected to manufacturing, is a significant source of value-added and the creation of good jobs.

The local economy is dominated by small and micro-firms, mostly family owned, that operate in a highly decentralized manner. In marked contrast to the vertically integrated, Fordist companies that developed in other advanced, capitalist countries, firms in Emilia-Romagna both compete and cooperate in different formal and informal networks to produce world-class goods for the global market. Emilia-Romagna's firms and networks of firms are world leaders in the automotive industry, the packaging machinery industry, machine tools, biomedical equipment, agricultural machinery, ceramics and textiles. The vast majority of firms are owned by worker-entrepreneurs, or artisans, who are specialized in a particular phase of production, connected by informal networks, by a lead firm in a cluster, or, in some cases, a large anchor firm. Often small firms are started by employees of large companies, who essentially spin-off from their original employer to become their own boss. In this case, the mother firm often remains a main client of the spin-off and may become an investor in that new firm. Some of these small firms go on to become lead firms in a sector as well. In the past, workers fired for union agitation would also go into business for themselves, often forming a worker-owned co-op as is the case of the Bilanciai cooperative of Modena, today one of the world leaders in the production of industrial weighing equipment. Today, CNA, the national association of small businesses – started in Bologna by the Left parties in 1945 – plays a key role in promoting the small firm economy. But CNA does more than just lobbying, CNA provides value-added services for its members that impact on the strategic success of firms and on networks of firms.

Another unique feature of the Emilian economy is the significant presence of cooperatives. Nearly 10% of the workforce is employed by the region's 7,500 cooperatives, and with almost 5,000 worker-owned co-ops, Emilia-Romagna is the epicenter for worker-ownership in Italy. 6% of the region's GDP is produced by cooperatives. This number is very significant, considering that the cooperatives tend to be medium-large firms, which make up just 1% of total firms in the region. Cooperatives are the undisputed leader in retail in Emilia-Romagna and have a significant presence in agriculture (Italy's largest milk producer is a cooperative based in Bologna). Some of the region's most impressive manufacturers are cooperatives. These worker-owned cooperatives are frequently national and international leaders in their particular market, and among the most innovative firms in the region. Legacoop, the largest organization

representing co-ops in Emilia-Romagna, plays an important role as lobbyist, interface between firms and government, coordinator of networks of co-ops and the promotion of new co-ops. Legacoop also manages Coopfond, a cooperative venture capital fund of more than \$200 million generated from the profits of member cooperatives.

This combination of the prevalence of small firms and micro-firms – whose owner is frequently also a worker – and cooperatives as the dominant economic force in the region make Emilia-Romagna's economy one of the most democratic, as measured by the direct participation of labor in firm-level management.

Labor also plays a significant role in the regional economy, not simply as a redistributor of wealth, but as a driver of development. Labor has often anticipated trends in the economy – before employers – and have successfully worked with businesses to stay innovative and dynamic, allowing manufacturing to maintain and continue to create good jobs. Labor has also successfully used the strike as an instrument for influencing business strategy, and not just wages. Labor is a key player in the production of wealth, and not simply the passive redistribution of wealth. With their own vision of how the economy should be managed, labor deserves its position as strategic partner in local development.

And while Communist Parties throughout the world were experimenting with planning and command economics, the Italian Communist Party (PCI) – which governed from 1945 until its transformation into the Left Wing Democrats in 1991 – took a bold, new path based on the acceptance of the market, the embrace of the entrepreneurial spirit and an alliance among small and medium firms, labor, and the cooperative movement against monopoly capital.

The Communist Party in Emilia was primarily a party of workers and peasants. Through the PCI, workers and peasants became mayors, town councilpeople, elected officials in the provincial government, union leaders and, later on, the main force in the regional government, not to mention small business owners and cooperators: the driving force behind post-war development. And when the working class and peasantry were not involved directly in managing the economy through cooperatives and small firms, they were “social protagonists,” driving development through policy or campaigning in the labor union.

Policymakers in Emilia-Romagna provide a significant degree of leadership in terms of setting broad objectives for development, but always do so in a consensus-based style. Labor, government and businesses work together on a permanent basis to build a common vision for development. Policy in Emilia-Romagna is the result of a process of dialogue among the “social partners” and government, with policymakers playing an important role in setting strategic objectives. One has the sense that, here, the common interest really does trump self-interest.

The Communist Party had an important impact on development in Emilia-Romagna in two ways: first, directly through its policies, then through its leadership in civil society and its ability to create broad-consensus around its vision and policies.

Policy in Emilia-Romagna tends to be driven by a long-term vision for development. For example, the current Minister for Productive Activities is thinking in terms of the impact his policies will have on manufacturing over the next forty years. This type of long-term thinking is made possible by the remarkable political stability in the region: the PCI, for forty years following the end of World War II, could count on being in power decade after decade. And, though weakened somewhat today, the center-Left still is the dominant political force at the local and regional level.

Policy in Emilia-Romagna has evolved significantly since the PCI first came to power in the region's main provinces in 1945. Here, in general terms, are the main features of policy as it has evolved since 1945.<sup>1</sup>

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<sup>1</sup>When discussing policy and development in Emilia-Romagna, some mention must be made of the Aldini-Valeriani technical high school. Founded in the 19<sup>th</sup> century out of the inheritances of two local professors and inventors (Valeriani was the grandson of Galvani), the Aldini-Valeriani Technical High

- 1.) With extremely limited resources, the Communist-led municipalities in Reggio-Emilia and Modena set about creating the region's first “productive areas” in the 1950s and 1960s. These local governments were confronted with two big problems following the Second World War. On the one hand, many of the region's craftsmen were working in unsafe, unhealthy, make-shift workshops. On the other hand, with the development of industry, there was an increase in land speculation. To combat both problems, the municipal governments purchased land, made infrastructure improvements to render the land fit for industrial use and sold small plots to small business owners and cooperatives at below market values. This move, originally designed to deal with the problem of safe working-conditions and speculation, would prove an important stimulus in the creation of the region's industrial districts.
- 2.) In the 1970s, the new regional government – without any powers of its own to make economic development policy – created ERVET, the regional development agency. ERVET was a private corporation wholly owned by the regional government that allowed the new regional government to intervene directly in economic development. Over the next fifteen years, through ERVET, the regional government created a series of sector-based service centers to provide small and medium firms with “real services” that they either could not find on the market, or could not afford. Thus began a decades-long period of “literacy training” for the region's small and medium firms, an intervention that many, today, deem “decisive” for the continued competitiveness of the local economy on the global market.
- 3.) In the 1990s, the region's policymakers, businesses and labor leaders began to explore the limits of the “Emilian-model” as it had developed. The conclusion was that the region's traditional competitive advantage (namely the ability to “learn by doing” and make incremental innovations to products, a focus on quality and customization) was not enough to keep firms competitive in the 21<sup>st</sup> century, especially in the face of growing competition from developing countries. Rejecting the idea that manufacturing should shift to low-wage countries,

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School began training skilled workers and designers before the advent of industrialization in Bologna, essentially priming the pump. As a result, the first local industry began to develop in the late 19<sup>th</sup> century. But the most important impact of Aldini on local development was in the packaging district. Bologna's world-class packaging district was essentially built by graduates of Aldini, including some of

policymakers, businesses and labor developed a vision that saw manufacturing connecting with the emerging hi-tech sectors, regional universities and research laboratories. Emilia-Romagna would compete on quality and innovation, not cost. These reflections, and ensuing dialogue among the social partners, resulted in the passage of the regional innovation and technology transfer law in 2003. This law created a regional network of universities, private laboratories, service centers and new “innovation centers.” This network is financed in part by regional and EU funds and is managed by ASTER, the region's technology transfer agency. In addition to financing the creation of this network (stimulating supply), the regional government also provides direct financing to companies or groups of companies doing to do innovative research in partnership with the innovation network (stimulating demand). The most tangible results have been the creation of a new “hi-mech” virtual district, connecting advanced research in areas like nanotechnology with traditional manufacturing as well as the hiring, since 2003, of nearly 1000 researchers directly by private industry.

But fundamental for understanding the overall success of Emilia-Romagna, in terms of competitiveness, social cohesion and economic democracy, is understanding the PCI's ability to exercise hegemony in civil society. This hegemony translated into the creation of a shared vision for economic and social development that guided the region's policymakers, union, cooperators and small and medium business owners. This vision defined the overall context for development, and made sure that conflict, more often than not, was a progressive force.

Following World War II, the PCI was the dominant power in politics in the region, and exercised leadership in civil society (often with the Socialist Party as junior partner) through the CGIL, the largest labor union, the Cooperative League and the small business association, CNA, which is the region's largest business association. These three organizations were the “hard core of red power” in the region, from 1945 until the 1990s. I think the best way to describe the importance of the PCI's hegemony is by way of example. Two examples to be precise.

In a conversation, one of the region's labor leaders told me of his first job. He started work as a machine tool operator for a small firm in Bologna that produced metal components. Both he and the owner of his firm were both members of the same local section of the Communist Party. But here, unlike Soviet Russia, for example, people did not join the PCI out of opportunism, but out of deep ideological convictions and/or shared democratic values. It was not a contradiction in terms to be a “Communist entrepreneur.” Which brings me to my second example. I interviewed a small business owner in the packaging district of Bologna, whose firm employs twenty people, and produces cylindrical components for packaging machinery. This owner is a self-identified “left wing entrepreneur.” When I asked him to explain, he said that meant seeing building his business in an overall context of the social development of the local community, of seeing labor and dialogue with the labor union as a key to his competitive

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the district's largest anchor firms today.

advantage, of involving his employees in ownership and management, and of building something that will outlive him and continue to produce wealth for future generations.

This is not to say that development in Emilia-Romagna is without conflict. On the contrary, there were periods of intense conflict in Emilia-Romagna, particularly following World War Two, and lasting into the early 1960s when the large firms in the region were extremely hostile to labor, often resorting to mass layoffs and individual firings to purge labor organizers and agitators from their businesses. Even more violent were the clashes with large landowners. One veteran organizer I know remembers attending the funeral of the last labor organizer to be killed in a confrontation with a landowner. That was in the early 1960s.

However, the hegemony effectively exercised by the PCI, its ability to build broad-based consensus even among sections of the bourgeoisie around its development policies (efficient government and support for businesses), and the direct and indirect participation of labor and the peasantry in the management of businesses and the economy through small firms, cooperatives and policy planning, made sure that this conflict generally had a positive outcome and that it took place in a larger, progressive vision and context of economic and social development.

### **The Emilian-Model: Significance and Future Challenges**

Emilia-Romagna is an important example of alternative development and economic democracy. It is a large-scale experience with a direct impact on the region's 4 million inhabitants (Sweden, an oft-cited example of a successful “third way” between free-market capitalism and the command economy, has a population of just 9 million). And shows how labor's participation in management at the firm and macro-level is not only compatible with competitiveness, but can be an important source of competitive advantage.

In addition, Emilia-Romagna has been a leader in the development of an alternative to Low Road globalization that shifts production to low wage countries, leading to deindustrialization and de-development back home. Though there have been some plant closings – particularly in the textile industry which lost 22,000 jobs in the end of the 1990s – Emilia-Romagna's firms, led by the large manufacturing cooperatives, have increased employment overall in manufacturing through a dual strategy based on concentrating R&D and high value-added production inside the region, and opening up production sites around the world to produce for local markets. For example, the SACMI cooperative has plants in China that produce ceramics presses – using technology developed in Bologna – *for the Chinese market*.

Still, challenges loom as some have begun talking of a crisis of maturity in Emilia-Romagna's economy. And this crisis clearly coincides with the advent of globalization. For one, there has been a breakdown in consensus among the various actors in the region. The triad of red power (labor, cooperatives and small businesses) that was key to building a common vision in the past, is fragmented. There is no grand vision on the scale of the “Emilian way to Socialism” that once animated union members and small business owners alike. And while none of the policymakers or other regional actors seem to be concerned about the mass de-industrialization of the regional economy – on the scale of what happened in the United States in the 1970s and 1980s for example – there are a number of pressing questions that everyone is asking themselves. These questions are inextricably linked to the questions posed by the RIPESS workshop organizers, namely how to broaden and scale up the impact of the “Emilian model.”

Up until the 1970s and 1980s, local development was largely endogenous in nature, driven by small and medium firms owned by workers or small entrepreneurs in the local community and a peculiar process of accumulation, driven by the cooperatives, which tend to reinvest the majority of annual earnings into growing the cooperative, strictly limiting how much the members (the cooperative's “shareholders”) earn in patronage dividends. This process of endogenous development has allowed Emilia-Romagna's firms to become major exporters (the

region's largest manufacturing cooperatives tend to sell 50-90% of what they produce on the global market, including in many developing countries) and to “globalize” on their own terms.

Clearly, those cooperatives that already operate on the international market will continue to succeed. Other private firms that already have a piece of the international market will remain competitive as well. In addition, a growing number of the region's larger, private firms, have turned to the financial markets as a source of capital. The risk, then, is not so much deindustrialization, but the creation of winners and losers. The majority of the region's firms – micro and small firms – and many cooperatives are still undercapitalized, with limited access to credit and almost no access to capital. Many of the region's small and medium firms face succession crises. When the original owner retires, there is no one to take the business over. These could become the losers.

Emilia-Romagna, with its policies in support of business growth, strong system of social services, qualified workforce and extensive system of sub-suppliers, is an attractive place for Foreign Direct Investment (FDI). A number of larger firms, like Ducati and Tetrapak, have been purchased by foreign investors who see the territory as key to competitiveness and have maintained and expanded productive capacity in the region. The new biomedical “district,” originally started by a local doctor, is now dominated by multi-national firms for example. But depending only on FDI as the main source of new capital could lead to a shift from endogenous to exogenous development, with a large part of the regional economy integrated into the global economy as simply one link in a global production circuit. Will this type of development still respond to the region's social needs as it has in the past? Will this type of development be as effective in distributing wealth, as it is in creating it?

In the past, elected officials in Emilia-Romagna were likely to couch their highly pragmatic policy decisions in the terms of combating monopoly capitalism, and even of a peaceful, democratic transition to socialism (the “Italian way.”) Today, this has all but disappeared. At best, the labor union will talk about building an alternative to neo-liberalism, but not a genuine paradigm shift. The reasons for this are complex. Surely the collapse of the Soviet Union and the rise of neo-liberalism as the dominant ideology even on the center-Left are components of this.

But, objectively speaking, I think it is appropriate to see development in Emilia-Romagna as an experiment in the construction of a democratic economy; if by economic democracy, we mean direct participation by labor and communities in management of the economy at the firm and macro-level, and social (or democratic) control of investment. Worker participation has historically been one of the region's competitive advantages. In the absence of the large-scale, Fordist factory, quality and innovation became the keys to success. This meant hiring highly skilled workers, somewhere in between an engineer and an operator, who worked machinery as well as designed components. This meant that a large portion of the workforce was not interchangeable, that companies, instead, needed to make long-term investments in them. On the other hand, the dominance of micro- and small-firms meant that a large portion of the skilled working class were also owners. Combined with the presence of cooperatives in agriculture and industry, this meant that the working class and peasantry participated (and continue to participate) directly in the management of their firms. And when labor and citizens were not involved directly in management, they became indirect or “social” drivers of development through public policy.

In the absence of an investor class, local banks, loans and grants from government, and the retained earnings of the cooperatives became the primary motor for new investments. These investments had a highly social character. And today, we can see the first stages in the development of an alternative investment mechanism in the cooperative movement's COOPFOND. COOPFOND is a risk capital fund for cooperative development. Investments are generated from a 3% “tax” on the profits of every cooperative in Italy. The fund is managed by a board of directors that represents the cooperative movement and must follow a social mission. The Fund has been involved in starting cooperatives in economically depressed areas of Italy, as

well as loans and funding to existing cooperatives looking to expand. And the Fund has now announced a new focus on worker buyouts of small and medium firms in danger of closing because of succession problems. With just under 300 million euros in capital, it's a relatively small fund. Nonetheless, COOPFOND is proof that an alternative investment mechanism that meets social needs, and contributes to economic democracy, is not only possible but economically viable.

I think if we see development in Emilia-Romagna as a model for economic democracy, then the answers to many of the challenges facing the region's development model become clear. In a broad sense, policy should favor increased participation in management and ownership. For example, the regional government could provide incentives to businesses that involve employees in ownership (something similar to ESOP legislation in the United States). The regional government is already moving in this direction, by providing access to lower-cost credit for workers looking to buyout their firm and turn it into a cooperative. This is a good start. But clearly, the region's small firms and cooperatives need access to risk capital, not just loans. To this end, a regional fund for local development could be created. This is not a new model, examples exist in Canada and England. The fund's mission could be to maximize both social and economic returns, and investors – who agree to lower returns on their investment – could be given tax incentives for investing their savings in such a fund. Another potentially powerful tool could be the recent acquisition of the *Banca Nazionale del Lavoro* by Unipol, a private insurance company owned by the cooperative movement. This new banking-insurance conglomerate could easily create an investment fund with a social mission that seeks a fair return on investment and maximum social return.

Throughout the latter half of the last century and the beginning of this century, Emilia-Romagna has provided an example of visionary and pragmatic public policy. Emilia-Romagna is an experience, on a large scale, that shows how competitiveness, innovation, participation and social development can be mutually reinforcing; and that effectively competing in the global marketplace on the High Road is possible. It is also an important experience, globally, in economic democracy. And broadening and scaling-up its impact and significance means continuing to move this direction.



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