POLICIES FOR THE LOCATION OF INDUSTRIAL DISTRICTS IN ITALY AND ISRAEL: A COMPARATIVE PERSPECTIVE

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Abstract[*] Recent global trends have affected significantly territorial and economic policies, especially in advanced-economy democracies, weakening frequently their national sovereignty. This paper, through published data, documentary sources, and interviews, offers a comparative perspective of industrial localisation's policies in Israel and Italy, focusing on the dualism national decision-making/local practice. Although they have two different political structures, both countries have shifted to greater decentralisation, increased deregulation, and more privatisation. Since the beginning of the State, Israel industrial localisation policy used tools as national and regional planning and fiscal incentives, with the objective of the industrial dispersal. But last years' profound economic, political, and social changes have led to a transformation of Israeli industrial geography, shifting changes in the government policies, and reinforcing the local-government assertiveness. Developing industrial parks has become a top priority even for rural regional council, with the risk of over-investment in too many industrial parks of too small a size. Similarly, since post-war years Italy concentrated on regenerating the economic periphery, the southern regions, through the "Cassa per il Mezzogiorno", helping finance and developing irrigation, agriculture and industrial development in the most disadvantaged areas with a policy of investments in infrastructures and financial supports to the localisation of large firms. The change of industrial models, now based on more flexible structures, has brought, almost spontaneously, the "Third Italy" phenomenon, a proliferation of 'local production systems' (LPS) where SMEs represent an high share of total employment. Based on an endogenous development model, the success of LPS is not guaranteed unless change and innovation take place among local SMEs and institutions and between the local production system and the external environment, competing areas and other spatial system. For both countries is necessary a comprehensive, strategic and flexible planning and a stable, efficient and no-bureaucratic decision-making process, at an intermediate scale between regional and local.

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1. Introduction

Recent global trends have affected significantly territorial and economic policies, especially in advanced-economy democracies. Reducing the barriers constituted by the distance and allowing the co-ordination of production and commerce on a global scale, the technological evolution of information, communication and transportation, has made easier the trans-nationalisation of production and distribution, giving to international economic institutions the powers once reserved to nation-states (Brecher and Costello, 1995). In addition, the erosion of the economic sovereignty of the state-nation (Ohmae, 1995), particularly with respect to those policies that affect international trade, investment, and financial flows, has contributed to a growing interdependence between economic globalisation and local development.

"…Too small to handle global forces, yet too big to manage people's lives"[1], the nation-states have understood to be no more the protagonists of the global economy and, on the contrary, they have to carry out the necessary changes in their systems to attract capitals and activities (Ohmae, 1995). These trends involve a rethinking of national governments role and their economic development policies.

Since '50s, in a context of heavy industrialisation, many developed countries started policies of industrial localisation trying to address capitals and new industrial plants in backward regions. Balancing flows of public funds and/or subsidies to large private firms for establishing in those regions could have promoted economic growth and employment and improving the 'regional balance' (Richardson, 1969).

During the '60s, the crisis of the large industrial systems began to point out an almost spontaneous growth of small and medium enterprises (SMEs). And this can not be only explained with the productive decentralisation of large firms in search of more favourable conditions of labour cost and use (Garofoli, 1992; Bagnasco, 1999). It depended rather on a trend, alternative to the vertical concentration in large units, and that is a generalized return to the horizontally coordinated production between firms, organized in small endogenous industrial settlements, the 'industrial districts' (Bagnasco, 1999).

Starting from a reflection about transformations of industrial localisation clustering, i.e. the nature of localised growth in spatial economy, the paper aims to analyse national and local governments' policies for promoting industrial settlements, particularly for developing endogenous innovative entrepreneurial initiatives, through the comparative

perspective of two case studies, Israel and Italy. The impetus for this rethinking had come originally from a wider comparative study[2], drawn mainly from published data, documentary sources, and interviews, which has employed the method of comparative analysis to better understand Israeli planning by placing a number of aspects of Israeli society, economy and politics in a comparable perspective. Refusing the perception of Israel's "uniqueness", the study tried to evidence how the current rate of change in many countries, including Israel, in the direction of economic liberalisation and political democratisation, has raised new and important issues, i.e. changes in industrial localisation, that have made Israel society, economy, and politics more "normal part of history" and less an "a-historical" phenomenon. At the same time, this has made easier to compare Israel's processes to those that have taken place in other socio-economic and political systems, i.e. Italy, pointing out on administrative decentralisation and planning strategies.

2. Models and definitions in the industrial localisation theory

We could expect some public powers' formulas for sustaining industrial development and particularly for giving birth to it where it is still absent, copying processes already verified elsewhere. In the latest years, the attention has been focused on 'industrial districts', that is specialised areas of small producers, where undefined conditions make horizontal integration of the production more profitable. Nevertheless, if a general theory of economic development based on small enterprises has begun to take root (Bagnasco, 1999), on the other hand it has been found that phenomena are various and changeable. These areas are activated by local production systems (LPS) with characteristic features and, for understanding them, it is necessary to investigate their particular practices of economic integration in the society. Undoubtedly, the comparative analysis is the only reasonable way for considering what resources can be mobilised and what difficulties must be overcome to obtain positive results.

Focusing on the processes rather than structures, it necessary to define a framework in which industrial localisation policies are seen as relating to a number of distinct types of industrial clustering in the spatial economy. As Gordon and McCann (2000) suggest, we can individuate three basic forms of clustering. "Two of these are developed from the neo-classical tradition of economics: the classic model of pure agglomeration, and the industrial–complex model. The third model, which is that of the network, was

developed initially outside mainstream economics and owes rather more to sociological perspectives"[3].

In the model of pure agglomeration (Marshall, 1925), the firms group together for achieving advantages of internal returns of scale, localisation economies, urbanisation economies. In this model, relations between firms and between firms and mobile factors are neither identifiable nor static. The system is without any particular observable organisation or inter-agent loyalty, and simply functions as an ecology of activities benefiting from proximity, and developing emergent forms of specialisation. The absence of formal structures or strong long-term relations between businesses in this model means that the local system has essentially an 'open membership', for any business establishment located in the area. This model evidently underlies modern urban economic theory, and its elements are recognisable features of the economies of metropolitan areas, widely supposed to be of enhanced importance to businesses seeking to maintain flexibility in an era of increased uncertainty and change (Gordon and McCann, 2000). On the contrary, the model of industrial complex is characterised by sets of identifiable and stable relations among firms that are partially manifested in their spatial behaviour. These relations are conceived primarily in terms of trading links. In this model, the individual firms, aspiring to minimise their observable spatial transactions costs, have implicitly or explicitly determined that is best achieved by locating close to other firms within the particular input-output production and consumption hierarchy of which they are part. The system in principle is not reducible to the smallest units possible, and no sunset of actors can recreate the system, because they do not have all of the necessary information about technology, labour specialisation, product innovation and markets. The complex is a 'closed club' and in the same way that the individual organisation monopolises the ability to innovate in certain products or processes, the organisation of the complex monopolises the ability of the firm to realise the benefits of those innovations (Gordon and McCann, 2000). Born as a critique of the neo-classical approach to the existence and development of institutions, the social-network model perceived the creation of hierarchical organisations and institutions as a rational response to the transactions-costs problems caused by bounded rationality and opportunism in a pure market-contracting economy. The development of organisations that allow transactions to be internalised and co-ordinated means that trust becomes institutionalised within the economic system. These interpersonal relationships depend on interpersonal trust and the informality of these

relationships is viewed as being a potential strength rather than a weakness. There are three key features of this trust-based behaviour: 1. firms within social network are willing to undertake risky co-operative and joint ventures without fear of opportunism; 2. firms are willing to reorganise their relationships without fear of reprisals; 3. firms are willing to act as a group in support of common mutually beneficial goals. The social network is comprised of a set of transitive private relationships in conditions where neither price signals nor monitoring are sufficient to ensure the implementation of a particular project or activity. Social networks became a form of durable social capital (Coleman, 1990), created through a combination of social history and ongoing collective action. In this sense, their strength is inherently problematic, depending upon a prior accumulation of trust, circumstances which facilitate monitoring of others' behaviour, a source of leadership and/or a sense of common interest, as well as the expectation of significant gains. Access to the club will depend on past experience and routine interaction as well as on investments of efforts in developing personal relations and trust. Much of the recent interest in social capital as a productive asset, particularly within the field of spatial planning, arises from the fact that the social-network model has been viewed as largely applicable to particular observations of spatial industrial clustering, i.e. SMEs' industrial districts (Gordon and McCann, 2000). The large acknowledgement of a new local ability of wealth production and employment in the modern economy, has arisen new territorial theories in the planning field (Magnagni, 1998). They focused on the concept of self-sustainability, which put in the foreground the 'local' aspect as an essential issue in economic development, and the "territorial production" develops into an internal problem for long-term production of wealth (Pace, 2000).

These new theories are alternative to conventional approach to spatial policy, inadequate in the face of macroeconomic and structural developments of 1980/90s, aiming to find innovative strategies for stimulating endogenous growth in redundant or marginal areas. The territorial planning has been too much joined to land use problems and characterised by an extreme slowness in the processes of plan elaboration, approval and implementation. Therefore it hasn't been able to support processes of local development, becoming an useless tool, sometimes harmful. The same political context has not always encouraged the analytical visibility which is required both for empirical testing of these propositions, and for assessing the broad scale of benefits which the various kinds of policy initiative might be expected to yield in different contexts. In

particular, there has been a tendency to use terms such as ‘local systems’, ‘industrial districts’, ‘innovative milieu’, more or less interchangeably, with little interest for question of operationalisation and for the different theoretical contexts out of which these ideas have emerged. We started to investigate, through our case studies, the degree of public policies’ awareness about the economic and social conditions, which explain born, growth and changes of local economies where small enterprises are of importance, relatively independents and, as a whole, moderately able of strategy, or if/how the ‘industrial districts’ development is dependent by national policies, and how a growing awareness of the changes in the spatial organisation of modern manufacturing and distribution activities and the communication possibilities, provided by the advent of new information technologies, can open the way to a renewed public-policy role in local economic development issues. This investigation could contribute to answer to the dilemma if a planning approach could better satisfy needs of local development than following spontaneous trends or spatially generic policies.

Generally, paraphrasing Becattini (1989), the keystone seems the possibility to individuate intermediate planning organisations between the whole system and the single subject, that can give pertinence to the concept of partial system as a system that neither comprises all the relations among economic organisations nor confines itself to the economic subject representation.

3. **Early phases of industrial development policies (1948-1973)**

A significant feature of both countries is the broad power in industrial development held by their public bodies, for different reasons and with different means. Since the establishment of the Israeli State, the political needs to strengthen the borders, to assure a permanent occupation of all the region, and to absorb an always growing number of Jews that could come back to the “Fatherland” (Pace, 1993), brought the government to promote a ‘population dispersal’, for a long time stated as one of the cornerstone of the national planning. A major element of this policy was the establishment of more than thirty new towns all around the country. Government authorities considered to disperse industry as a means for providing employment in peripheral regions, contrasting yet with the local industrial structure, mostly concentrated in Tel Aviv and Haifa. Justified by the continuous state of war against Arab countries, this policy influenced strongly the industrial choices in terms of activities and geographical distribution (Gradus, Razin, and Krakover, 1993). This emphasised a persistent dilemma between defence and

security needs on the one hand, calling for dispersal (also industrial), and on the other, economic efficiency, requiring agglomeration and concentration of economic activities in urban areas. However, the need to develop sophisticated defence products promoted primarily high-technology industries (Gradus, Razin, and Krakover, 1993), and contributed to forge both a culture of productive innovation and suitable human resources, making the country competitive in export market.

On the contrary, in Italy the dramatic post world war urgency - mass unemployment, inflation, generalised poverty - caused an industrial rebuild in a framework of continuity with the pre-war period (Bruno, 1995), focusing financial aids on a limited number of large firms, territorially concentrated in the north of the country. These firms, thanks to a situation of almost monopoly, succeeded to affirm themselves in the international market too, nevertheless sustaining remarkable technical-dimensional unbalances, peculiar features of the Italian productive structure. In this way, it grew the gap between a limited number of large firms, strongly integrated and newly equipped, and a vast number of small productive units unable to overcome a mean local market. But some more it grew the gap between the North and the South of the country. Notwithstanding the government established an agency, the *Cassa per il Mezzogiorno*, to help finance and develop irrigation, agriculture and industrial development in the southern regions, the existence of disadvantaged areas guaranteed both intense migratory flows, which allowed to control the labour market in the advanced areas on the demand side, and an always wider market in the relatively depressed regions for the advanced regions' products, through public expenditure increase caused by the special intervention and the transfer policy (Garofoli, 1976). Such industrial agglomeration process also pointed out other characters of the Italian industrial structure, as a weak industrial culture, a lack of industrial employment and of domestic market, and a fragmentary infrastructure system.

In both countries, the public industrial policy was carried out through financial investments and the action of large productive public mechanisms. But, while Italian industrial support was unplanned and fragmentary, and principally condensed on a direct participation in industrial productions and regulating credit facilities to support SMEs and industrial reconvention programmes, the Israeli government employed physical planning and economic incentives for supporting industrial development.

In Israel the almost total governmental control of the main resources, both physical and human, made possible a continuous implementation of national plans to direct large numbers of immigrants to specific locations. The promise of welcoming every Jew that

wants come back to Israel, sanctioned by the Law of the Return (1950), influenced greatly Israeli planning doctrine, giving to the collective commitment a supremacy and priority over individual self-fulfilment (Shachar, 1996). At that time, two basic planning principles, as economic efficiency and social equity, were not significant, and virtually only the spatial organisation of localities was an aim of national planning. According to Christaller's central localities theory, the first National Plan's goal was to direct the ever-growing stream of immigration into new planning regions, organised in a hierarchic rural-urban network. The weak settlement structure of the time was strengthen by the establishment of new towns, most of them planned as expansions of already existing small town-lets. The National plan sited extractive industries near the mineral resources in the Southern towns, heavy and assembly industries near the port towns, and light industries spread among the medium-sized regional new towns (Sharon, 1976). For attracting industries in peripheral regions, the government both planned infrastructures and services for new industrial areas, and fixed economic incentives. The major incentives for industrial localisation were incorporated in the Law for Encouraging Capital Investment (1950) and the benefits included tax concessions, reduced obstacles to importing inputs, and permission to transfer profits abroad. The Law defined criteria for granting an 'approved enterprise' status to investment plans in manufacturing and tourism, according to the location of the investment and to its contribution to exports (Gradus, Razin, and Krakover, 1993). "Population dispersal has been stated as one of the goals of the Law since 1950, but only in 1959 were explicit measures, differentiating between central areas and development zones incorporated in the law"[4], with the classification of national priority zone A and B. It attracted to peripheral regions capital-intensive plants and non-exporting plants, also because the exporting ones could obtain most of the incentives in central regions as well (Schwartz, 1985). Nearly all the new plants were either owned by firms and residents of the central regions, or to a small extend by foreign investors. Investments in development towns favoured large plants (Kipnis, 1977) in such non-growing manufacturing branches as textiles, characterised by unskilled labour, failing to attract fast growing high-technology industries, usually export-oriented. Moreover, specific industries, not particularly beneficial to the Israeli economy, were included in a blacklist of industries that were ineligible for incentives, unless they wished to locate plants in the most depressed development towns. Additional benefits granted to plants locate in the periphery included subsidised land and infrastructure developed by the government-

owned Industrial Building Corporation. Plants located in development zones also occasionally received preference in obtaining government contracts. But exports and R&D subsidies - the two major industrial subsidies other than those incorporate in the Law for Encouraging Capital Investment – have contributed to reduce the Law commitments (Gradus, Razin, and Krakover, 1993).

In Italy, the weakness of planning culture restrained the government activity in the industrial development, as shown by *Vanoni Scheme*[5] where a effectual planning validity was impoverished by the operative apparatus inadequacy and the scarce planning government capacity. In the industrial field, more concrete was the institution of the *Ministero delle Partecipazioni Statali* (1956), with functions of co-ordination and control of public enterprises, which enlarged the public power domain both in the participated enterprises and dictated the principle of necessity of a government co-ordination for each economic sector. Moreover, the policy of firms owned by the government assumed the shape of an autonomous model of behaviour, instrumental to the State goals, i.e. for promoting economic development. Also pursuing a policy principally concerned with strategic issues rather than physical planning, the government reinforced the principle of supporting *Mezzogiorno* industrialisation through the Law 634 of the 1957, which prepared condition for the establishment of industrial development areas and units, inside whom to concentrate activities of financial support, of infrastructure implementation, and to amplify credit incentives to industrial investments in the southern regions, attributing to the *Cassa per il Mezzogiorno* the faculty to provide grants to credit institutions for industrial subsidy operations. The Law fixed, moreover, the obligation for the public firms to reserve to the southern regions 60 per cent of new productive investments at least, and in any case no less of 40 per cent of their annual investments total, introducing an heavy conditioning factor of public firms, particularly for their prevailing northern location (Bruno, 1995). In this way, the public firms became the privileged instrument for the industrial policy in the *Mezzogiorno*, and the same definition of policy directions and goals was divided among a plurality of decision-makers and implemented through negotiations that, apart from a growing un-responsibility of political parties and firm managements, translated in the impossibility to have an effective planning. On the contrary, in Israel the existence of firms owned by the government and by *Histadrut*, not always based on purely economic considerations, gave the opportunity to develop major industrial projects in peripheral regions, as a wide-scale development of mineral

extracting plants in the south, whereas the role of the private sector in industrial dispersal was minimum until the late '50s.

Notwithstanding Israel experienced rapid economic growth and industrial expansion between the late 1950s and the early 1970s (Plessner, 1994), the extensive government incentives[6] produced certain distortions in the pattern of investment which became more and more evident as the system was continued over decades. Distortions as the establishment of capital-intensive plants in peripheral areas with high unemployment, or location of production for domestic market with poor prospect of profitability. The incentives also had a weak influence on the location of R&D-intensive facilities because the generally non-spatial R&D subsidies have usually been far more significant for such functions than the capital subsidies. As Schwartz noticed, tax concessions also caused another distortion. The incentive has been higher for short-term initiatives, such as low risk tradition production lines, rather than long-range investments. So we can resume that incentives attracted to development areas those enterprises and initiatives with a weak financial base which were most dependent on public financing. The Schwartz analysis for the period 1977-1984 demonstrates the tendency of the law to attract traditional non-growth industries to development towns (Schwartz, 1989), without generating local entrepreneurships, and least of all innovative milieux. On the contrary, in Italy, beside large public and private firms, it was reinforcing the presence of SMEs spread on the territory that started to assume a more active role in the Italian development process (Bruno, 1995). In fact, to the great productive growth determined by the 1953-63 investments phase it succeeded a reduced expansive capacity of the large firms, caused by clear factors of weakness, as a scarce technological innovation and an ineffective financial organisation. The first was produced by: 1. slightly of public and private efforts in applied research; 2. financial difficulties for supporting the development of more innovative sectors; 3. absence of a governmental industrial policy directed to achieve qualified productive goals. The second factor was principally due to familiar structure of the firms, also the largest, in contrast with the necessity of enlarging the share capital for withstanding the international competition. The industrial weakness modified the government firms system through rescue interventions of private firms in crisis. With the aim of maintaining and supporting employment, these rescue produced distortions in the productive system, as a slower decision-making process, with a decisive role held by political needs, a minor importance of business results, and a larger use of credit facilities.

4. Economic stagnation and the emergence of local development strategies

The changing economic reality of the 1970s and 1980s reduced growth rates in the both countries economy since 1973, and shifts in global economic conditions associated with the restructuring of industrial activities. In Israel, this affected the performance of the national spatial industrialisation policy, without a governmental revision of the public incentive policies. Particularly, the stagnation of Israel's economy involved a lack of significant industrial growth, with the result that development areas have been competing in an increasingly zero-sum game against central regions over industrial investment. Hence, spatial industrialization policy survived mainly as a tool for alleviating short-term unemployment problems, not for development towns long-term growth (Gradus, Razin, and Krakover, 1993).

The governmental policies continued to have the same goals, producing only quantitative modification in terms of national planning and incentives. As pointed out by Gradus, Razin and Krakover, it was clear the inability of the government to revise the map of development zones; to reorient measures towards new types of enterprises; to decentralise agencies engaged in development efforts; and to re-evaluate general priorities in public efforts to promote the periphery (Gradus, Razin, and Krakover, 1993). Changes in the map of development zone (1967, 1972, 1977) were made without considering their wider implications for other towns and regions, and showing a basic difference between policy measures resulting from a comprehensive planning approach, and those produced through political pressure leading to incremental modifications. But the successive government efforts at implementation of the map have been blocked by local political interests. The presence of influential leaders in development towns near metropolitan areas created 'niches of subsidence', that is towns located in central areas with the same incentives of peripheral regions, emphasising the socio-economic gap between centre and periphery.

Another cause of declining effectiveness of government's incentives for industrial dispersal was represented by the growth of high-technology industries, which urged for a model of pure agglomeration. In fact, complex and unstable input, output, and informational networks imply high transaction costs and a tendency to agglomerate near suppliers, subcontractors, customers, and information sources. Since the late 1960s, fast-growing high-tech industries have been perceived as Israel's greatest hope for economic advancement. The large domestic demand for sophisticated defence products,

combined with abundant human capital and a high-tech R&D complex, has given to Israeli high-tech industries a place in the international division of labour. The role of government in developing this sector has increased since 1976, largely through grants to civilian R&D projects with export potential (Gradus, Razin, and Krakover, 1993), in addition to the incentives of the Law for Encouraging Capital Investment. Nevertheless, government support for high-tech investment has tended to find his way to the largest firms and holding companies, and small enterprises have been recipient of only about 10% of all Israeli government aid. In this sector, government incentives had a role of attracting multinational firms, offsetting the political risks of investing in Israel and in gaining the competitive edge over other countries. In particular, it attracted R&D and skill-intensive production units of multinationals in the electronic industry headquartered in the United States, and this penetration stood in contrast to the small share of foreign companies in the Israeli economy, representing a break with earlier trends. So, there was a decline of traditional industries, which used to be dominant in peripheral regions, and a contemporary growth of industries and production process that tend to avoid the periphery, i.e. micro-electronics, producer services, and R&D functions.

In Italy, the slowing down of growth rates promoted a transformation in the relations between large and small enterprises, particularly for the incidence of territorial, organizational and productive differentiation and concentration factors. It began to growth the 'peripheral' economy of SMEs, about whom exists already a copious bibliography. To the classical dualistic paradigm - North industrialised and undeveloped *Mezzogiorno* – there was the addition of a 'Third Italy', located in the centre-west of the country and not attributable to the two traditional divisions (Bruno, 1995). Without studying further in deep the argument, we must notice that the specific development features - as the prevalence of small company size, the role of the family as fundamental economic and entrepreneurial unit, the integration among specialised agriculture, craft and new industrial initiatives, the aggregative strength of small enterprises systems, the structuration of industrial districts locally identifiable as unitary productive settlements (LPS) spread on the territory, were allowed by original cultural and social characteristics, which guaranteed a large distribution of advantages and the model acceptance (Bagnasco, 1999). The characteristic social milieu provides technical and trade knowledge spread among many subjects, a custom shared with the idea and the market practices, personal relationship networks characterized by mutual trust for a

simple information exchange and for negotiating deals easily together with low transaction costs. The governmental policy was very limited, indirectly facilitating the so called 'familiar enterprises' with fiscal measures. Therefore, the reasons of this productive agglomeration can be individuated in environmental features as: 1. the availability of capitals coming from a rich agriculture; 2. the presence of measure to cushion the effects of unemployment in the family and the community; 3. the long incubation of both entrepreneurial abilities and technological knowledge, exploded with the appearance of market and productive favourable conditions; 4. the close contact of these regions with developed areas and productive structures, which work as immediate outlet market and supplier of intermediate products and capitals. These processes, in local contexts as those of the *Mezzogiorno* – characterized by different economic and productive conditions – don't succeeded to catch on, breaking up this trend in a plurality of single local cases, promoted something by those bigger industrial settlements born with the special intervention. The crisis of the Fordism and the following de-industrialization process acquired different territorial means. In the Centre-North, to the resizing of work force and productive units in the large and medium enterprises it has been opposed a relevant growth of the characteristic technical size and a consolidation of the small enterprises already influential presence, typical of the district model (Giannola, 1998), showing implications of a physiologic passage to tertiary, similarly to other advanced economies; in the *Mezzogiorno* they were a feedback of a structural crisis that exceeded the economic structure, increased by the unexpected liquidation of the *Cassa per il Mezzogiorno* (1985) and the following conclusion of the special intervention (1993). Manufacturing industry had not been developed on the scale required and tended to be, similarly to Israeli periphery, capital-intensive rather labour-intensive, with an emphasis on public utilities, rather on a modern private sector. The *Cassa* powers were transferred by new legislation of regional governments (1986), and there was an attempt to promote small-scale industry and tourism, with the aid of European Union (EU) funding. In fact, with the 1988 EU reforms the Italian industrial policy had to change greatly. With the aim of rationalising fund intervention, the reforms identified three regional development 'objectives' (in favour of lagging regions, areas with industrial decline and rural areas) to be tackled at the Community level by the structural funds, including the ERDF (European Regional Development Fund), and other financial instruments. In addition, the reforms introduced the aim of concentrating

funding on a limited number of priorities within a region's 'Community support framework' (Balchin, Sýkora, and Bull, 1999).

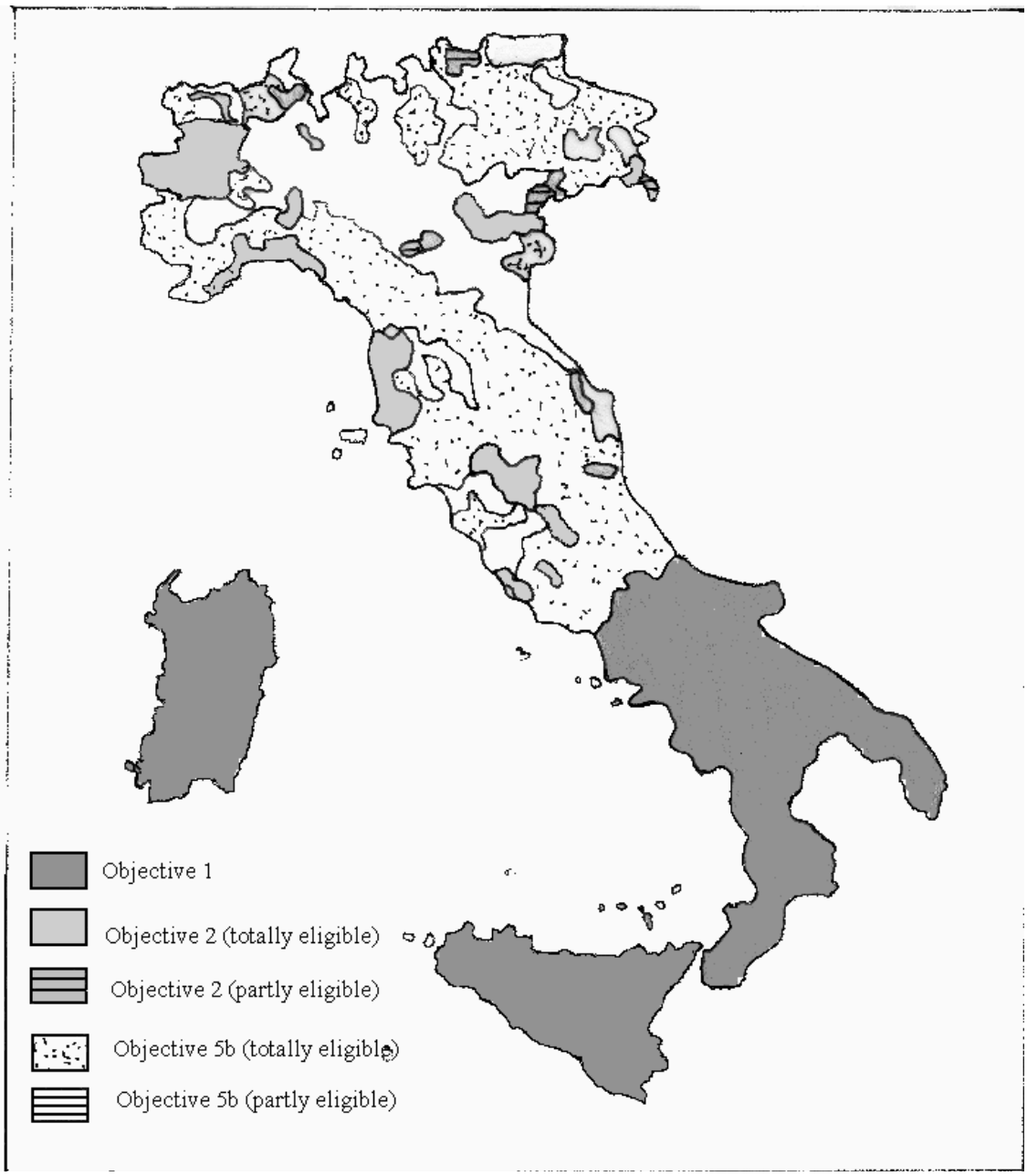

Fig. 2. Designated Structural Fund areas in Italy, 1994-1999.

The *Mezzogiorno* was qualified for the whole of the country's Objective 1 – economic adjustment of regions whose development is lagging behind – and through the regional ties of government, a sum of 14,9 billion ECU was available for the period 1994-1999 to promote development with eight priorities, first of all the development of industry, small and medium enterprises, craft businesses, business services and industrial estate development. This represented a clear change in the funding philosophy, which have put

to the test government and local administrations, and the weak planning culture of the Southern entrepreneurial system, which had also to face a heavy collective pathology caused by phenomena as a spread criminality, nepotism, and corporatism that contrast a correct functioning of both public administration and local economy (Meldolesi, 1998).

5. Emergence of local development strategies and entrepreneurship promotion

While in Italy, as referred before, the SMEs' entrepreneurial milieu appeared rather significant and stable, at least for the Centre-North, in Israel the dispersal policies, besides to fail in elevating economic and social level of development towns, hadn't considered to support measures of entrepreneurial promotion. Nevertheless, in the fringe of metropolitan areas, there was a entrepreneurial growth, taking advantage from a pure agglomeration clustering. This spontaneous export-oriented trend found as strong allied two events: the municipal electoral reform (1978) and the mass immigration from the former USSR (1989-1992). The first, which led to the direct election of majors in 1978, favoured the increasing role of local authorities in public efforts to promote industrialization, together the budgetary policy of the'80s, which improved the reliance of local authorities on municipal taxes. It has had a marked shift of Israel industrial geography, contributing to a shift in the balance of power between local and central government (Elazar and Kalchheim, 1988). The large immigration wave produced a new atmosphere in Israel. For the first time, the government didn't try to control immigrants' decision as to where to reside, and the 'population dispersal' ceased to be a cornerstone of planning system. In the "National Outline Scheme for construction and development and absorption of immigration" (N.O.S. 31) – the major effort to revise Israel's national statutory physical plans – the goal of short-term massive population dispersal was abandoned in favour of short-term concentration and only long-term dispersal (Golani, Eldor, and Garon, 1992). In the plan was prominent a free-market approach to regional development, which advocated to allow "growth in the business sector, in advanced manufacturing, in producer services, and in trade to concentrate in the central metropolitan areas, from where they would eventually trickle down to periphery"[7].

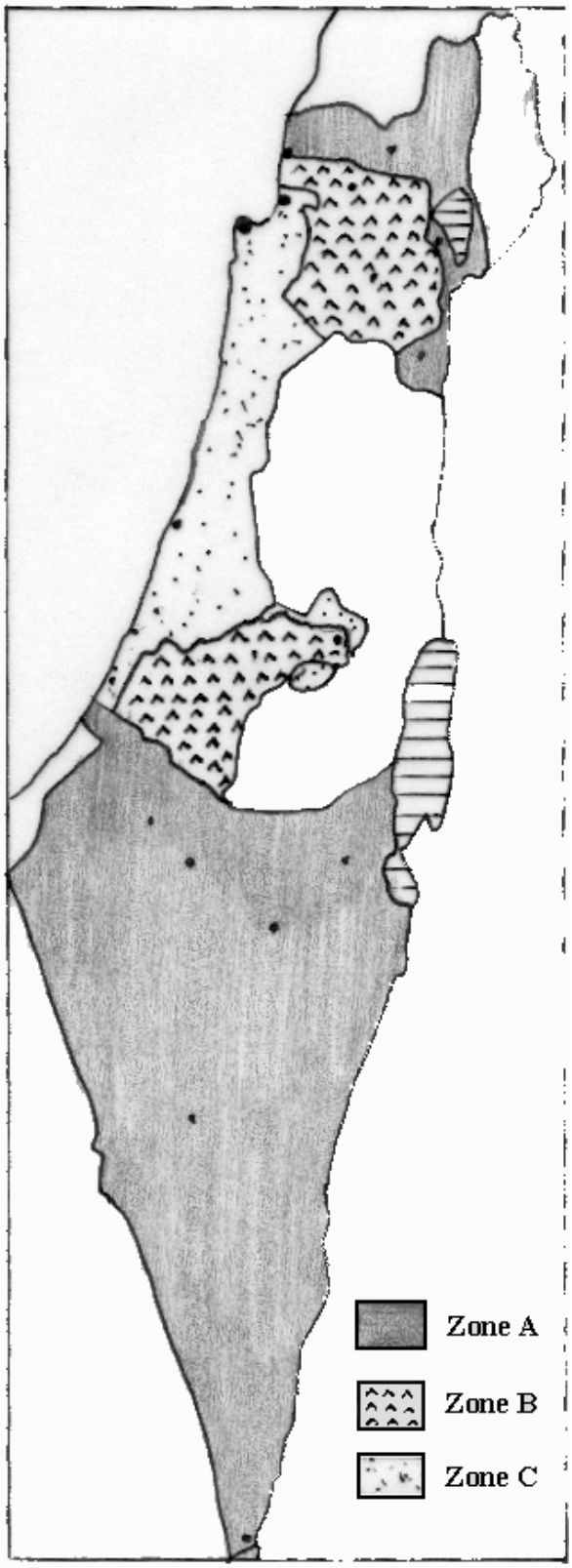

Fig. 1 - Incentive for development zones (1998)

So, after two decades of inertia and small incremental changes in government industrial policy, incentives for encouragement of industrial investment were revised in a manner unprecedented since the '60s, reducing the effective incentive for plants to locate in

peripheral regions. Firstly, the pressing needs for immigrant absorption led to the introduction of an alternative option: government-guaranteed loans to finance industrial investment. Although more favourable in development zones than in the core, in general, as with the tax-exemption option, this channel became most attractive in core regions. Secondly, an additional factor reducing the incentive for dispersal was given by changes in the map of development zones, which gradually expanded towards the Tel Aviv and Haifa metropolitan areas. The government's policy had clear impact on location decision and, as shown by Razin (1996), two types of locations attracted the largest number of approved programs: the first includes the major urban centers, as well other cities in the Tel Aviv metropolitan area, with an high proportion in high-tech firms; the second combines priority-zone incentives with proximity to metropolitan centres. The economic growth and an increase in the industrial investments in the '90s generated two additional trends, especially in the fringe of Tel Aviv metropolitan area. The first trend involves the intensifying competition between municipalities for tax-generating industrial land uses. Developing industrial parks has become a top priority even for rural regional council, with the risk of over-investment in too many industrial parks of too small a size. The second trend consists of the penetration of industry into rural communities, as *moshavim*, viewed as an unavoidable consequences of the crisis in agriculture. These trends have contributed to a sub-urban diffusion of enterprises, but the calls for promoting local entrepreneurship were ignored for a long time by policy-makers, particularly because they considered absent in the development towns those traditions of enterprise, which facilitate in Italy the formation of entrepreneurial economies. After early attempts of promoting entrepreneurship - as industrial villages initiative, the Ganei Taassiya incubator facility, and loan funds for small business initiated in two development towns by the Jewish Agency's Project Renewal (Gradus, Razin, and Krakover, 1993) – the formation of instruments for promoting entrepreneurship by the government, local authorities, and other public organisations reached the 'take-off' stage only with the new wave of immigrants from the former USSR. Together extra-governmental public organisations, and institute of higher learning, the central government became directly involved in promoting entrepreneurship in the new immigrants through two major instruments: 1. 'National Small Business Loan Fund' for establishments of up to forty employees and a scheme for small business loan guarantees; 2. a financial assistance for the technological incubator projects. The assistance could be of two types: 1. a business advisory service,

providing information and support services, i.e. small business development centres (SBDCs); 2. site-based initiatives, focusing incentives and services on specific development sites and their networks of operation. Whereas the first represents a philanthropic system to help potential entrepreneurs in all the stages of preparation and start up of new productive initiatives, on the model of the 'American Joint Distribution Committee', the second, constituted by technological incubator, although organised as autonomous non-profit corporation under the guidance of the Office of the Chief Scientist of the Ministry of Industry and Trade, provides entrepreneurs with physical premises, financial resources, tools, professional guidance, and administrative assistance, helping them to implement their ideas by turning into exportable commercial products and forming productive business ventures in Israel. The incubator is managed by a professional salaried director, a policymaking management, and a project committee that selects and monitors projects. The last two institutions are composed of professionals, corporate and industrial executive, R&D managers in high-tech enterprises, professors, and public figures, and all of them work on a voluntary basis. To be accepted, the projects must be an R&D projects, based on an innovative technological idea that aims to develop a product with export marketing potential. The entrepreneurs must be teams of 3-6 people, fledgling and almost 50 per cent former USSR immigrants. The stay of the project in the incubator is approximately two years, after that the entrepreneurs 'graduated' should be able to continue on their own if necessary, availing themselves of regular channels of State support and outside investments. Immediately upon entering the incubator, the project is registered as a limited-liability company and learns to operate as commercial venture. An agreement is signed between the project developers and the incubator management to stipulate the developers' rights and to ensure management's ability to attain its goals and meet its commitments to the State, which will reimbursed up to the sum of its grant through royalties on sales. In the 26 actual incubators, 27 per cent of the projects are in electronic and 20 per cent in software production, 17 per cent in medical instrumentation and 27 per cent in chemistry. However the incubator can not be consider a job-creation enterprise, because it stresses entrepreneurship only, now it is considered as the most efficient and productive job-creator, open to any entrepreneur or inventor of any age. Empirical evidence shows that most people employed during the incubator period continue to work in the emergent companies afterward. Where projects have failed, the people involved in them have had no problems finding work in their

fields. The general results of Israeli incubators experience show 208 projects actually in the incubators, while 592 projects had left. Of these "graduates", 308 have continued under their own steam, employing 1.400 professionals. The technological incubator success cannot explain without considering the Israeli favourable climate for the high technology: the highest rate of engineers and researchers in the world (135 per 10.000 inhabitants), the highest investment in education (8,9 per cent of GDP) and in civilian R&D (2,2 per cent of GDP)[8], the presence in Israel of about 2,000 high-tech companies and more than 3,000 high-tech start-ups, an established existence of multi-national companies, and a growth of total foreign investment from $537 million (1992) to $5 billion (1998). The incubator project overcame the government forecasting, greatly pushed forward by its global market success, and very remarkable appears the involvement of local administrations, universities, research institutes, large multinational firms, and non-governmental public organisations. So, local features, in terms both of human and social capital, and of infrastructure and institutions, become influential factors of productive choices, which overcome sometimes the national level for linking directly to global networks. In this sense, an incubator transformation seems inevitable in a changing context. Loosing their initial function of integrating entrepreneurs and inventor from the former USSR in a market economy, they could change goals and structures, stressing especially the financial characteristics and becoming attraction poles for foreign capitals.

Differently by Israel, where local industrial policies and entrepreneurial promotion have come out of planners and policy-makers and directed to new immigrants, in Italy the government found an already structured SMEs' system in the Centre-North, based on social-network clustering. Moreover, the '90s experienced an heavy economic crisis, followed by an structural adjustment and a public work freezing, that contributed to enlarge the delay in the *Mezzogiorno* infrastructures. Besides the end of the 'special intervention' – which contributed to put out of the market a lot of enterprises – the public demand failed in guaranteeing satisfying levels of activity for local enterprises (Giannola, 1998). The accumulation of these events has determined a significant growth of North-South gap, which show itself through a relative decline of incomes and a mass unemployment in the South. However, in the South in the face of the disappearance of non-local large firms – caused by progressive dismantling of 'public participations' system and by a growing release of private enterprises – there has been a growth of local industrial units of small size, especially in traditional sectors (Giannola, 98). In

this situation, many expert have considered more correct an industrial policy for selecting and sustaining the existing firms before stimulating new enterprises. Moreover, rarely in the *Mezzogiorno* there are enterprises systems, as Centre-North industrial districts, and the small firm size depend on both the limited possibilities of the enterprise to start and to sustain autonomously growth processes, and constraints deriving by an unfavourable environmental and infrastructure context that presses its development.

The government policy, besides policies for alleviating unemployment and sustaining existing firms – through a strategy of flexible wages and a de-regulation of labour market – has started policies of both industrial location and entrepreneurship promotion. Considering the EU reforms, the government gave to Southern Regions the responsibility to individuate local industrial districts, eligible for EU funding as development areas. The Regions, through tools as *programmi integrati d'area*, invited local administrations, together social and economic organisations, to elaborate and to outline development policies, activating tools as *contratti d'area*, and eventually using resources as *patti territoriali*. The *programmi integrati d'area* are based on a technical-financial programme, provided of a project with short/medium term coordinated measures between public and private subjects, directed to maintain or implement employment levels, to infrastructure development areas for new productive settlements, to facilitate productive activities and services. In many regional directives, it is prioritary to recover, to reclaim and to re-use dismantled industrial areas, to delocalise polluting plants from urban centres and to designate new areas for productive settlements of small non-polluting enterprise. The *Contratti d'area* and *patti territoriali* are tools that aim to realise a coordinated action of groups of local subjects: the *patti* emphasise the achievement of integrated industrial and infrastructure investments; the *contratti* emphasise the agreement for particular conditions in labour and credit measures, and in the security guarantees for areas interested by heavy unemployment. Whereas many difficulties have slowed down these tool's implementation and no final judgment is possible, it is possible to affirm that none of them is submitted to a planning framework.

About entrepreneurship promotion, in Italy have been experimented many different types of intervention. On a side, we can consider the BIC experience, whose concept was launched by the Directorate-General for Regional Policy of the Commission of the EC (DG XVI) in 1984, and it is similar to the Israeli SBDCs. Initially intended as an

instrument to assist areas undergoing industrial restructuring and economically less-developed areas of the EEC, it is a small, skilled team working to help SMEs, which succeed and thereby contribute to local economic development, as a local or regional partnership structure which provides SMEs with a full range of services, on favourable terms, focusing on innovation for industry or services to industry. It identifies, selects and supports budding entrepreneurs and their project, or existing SMEs. It allocates public and private resources to initiatives which contribute to wealth and job creation and to activity diversification, also promoting SMEs access to the international market and to co-operation. In Italy, some BIC experience were valuable, but only after many time their concept has taken root in the Southern regions, i.e. Calabria. On the other side, there is a plurality of law for entrepreneurship promotion, as Law 95 of 1995 for promotion of youthful enterprises, Law 236/93 about promotion of new youthful enterprises in the services sector, Law 215/95 about positive measures for woman's enterprises, Law 608/96 on special measures for the promotion of autonomous jobs, known as '*prestito d'onore'*. In spite of some success stories, they failed in creating an entrepreneurial environment because their fragmentation. In addition, incentives to investment had a change with the Law 488/92 that received the EU directive of transparency, modifying and simplifying the funding measures, regularising the timing allocation, and limiting the funding availabilities (Cafiero, 1998).

6. Conclusions

Our comparative review of policies of industrial location in Israel and Italy showed many similarities, produced by both international economic transformations and the presence of undeveloped areas in each country. The study also pointed out on three substantial differences. The first is represented by relevance of planning in Israel, and his almost complete absence in Italy, especially at national level; the second by the weight of the educational system, R&D funding, and spin-off opportunities in Israel; and the third by the existence of particular social and economic contexts, facilitating the formation of entrepreneurial economies in Italy and the growth of high-technology sector in Israel.

The choice of planning tools has not only depended on goals of political economy that Israel have pursued, but on political and social situations and on their effectiveness inside the institutional framework. The Israeli 'population dispersal' policy, with all its ideological background, tried of go up against the pure agglomeration industrial trend,

managing to settle industries in the periphery areas and capital intensive in development regions, and then, with a reducing of , but only contributing to an evident division between labour-intensive industries in metropolitan the government power, favouring some local administrations and creating 'niches of subsidence' in the fringe of metropolitan areas. Only in the '90s, the planning has become more sensitive to the needs of industrial concentration, offering agglomerative opportunities. In Italy, the governmental planning weakness has created a confused set of policies, with a variety of industrial situations, a fragmentation of initiatives, a lack of commitments in local administrations, a limited degree of public policies' awareness about the local economic and social conditions, but also broad spaces for a spontaneous growth of SMEs and for the establishment of autonomous social networks. So, it is possible to consider social-networks relatively independents and, as a whole, moderately able of strategy, which many time finds its reasons in the trans-nationalisation of production and distribution. In this context, Israel is well advanced respect Italy in attracting capitals, multinational firms and innovative activities.

Another difference is suggested by the disparity of investment in education and R&D, traditionally low in Italy and very high in Israel, with a continuous university and research spin-off in industry, constituting an 'interaction-intensive' element of an innovation system, which created a favourable milieu for high-tech production. In Italy, more than a low public investment level in R&D, it has been relevant the almost complete absence of private funding and a inadequate presence of universities in supporting industrial innovative productions. Notwithstanding a special fund has been instituted by Italian government (Law 1089/68, amended by Law 46/82) for sustaining research and educational initiative through bottom-up or top-down interventions, the situation did not improved in the last years, also for the fragmented and small-scale productive structure. Finally, in Italy the industrial district experience was possible in a particular environmental context, in specific economic situation, scarcely dependent on national or regional policies, rather favoured by weak governments constraints and big flexibility.

Nevertheless, in the eve of a new-economy triumph both planning systems should be more aware of the changes in the spatial organisation of modern manufacturing and distribution activities and the communication possibilities, provided by the advent of new information technologies, opening a rethinking of public-policy role in local economic development issues. The experience has shown the importance of a planning

approach, non-ideological, comprehensive, non-fragmentary, and flexible, but the ambiguous relationship between national and municipal suggests to define intermediate level of planning, sometimes delimited for a specific plan, i.e. an industrial district plan, in contexts characterised by mutual trust for easy and faster negotiations, with low transaction costs.

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NOTES

[1] Castells M., *The Information Age. Economy, Society and Culture. Vol. II. The Power of Identity*, Blackwell, Malden, Mass, 1997, p.273.

[2] The bilateral programme "The last twenty years of planning in Israel: a comparative study", directed by Ariella Vraneski (Centre for Urban and Regional Studies – Technion, Haifa) and me, funded by Italian National Research Council and Israel Ministry of Science and Arts.

[3] Gordon I. R.., McCann P., "Industrial Clusters: Complexes, Agglomeration and/or Social Networks", Urban Studies, vol. 37, 2000.

[4] Gradus Y., Razin E., Krakover S., *The Industrial Geography of Israel*, Routledge, London, 1993, p. 98.

[5] The *Vanoni scheme*, or "Schema di sviluppo dell'occupazione e del reddito in Italia nel decennio 1955-1964", pointed out unemployment and territorial unbalance of industrial development as the main problems of Italian economy, and it recognised the necessity of a coherent and explicit government initiative for addressing, directing and sustaining private actions.

[6] The incentives of the Law for Encouraging Capital Investment were second and, since the 1970s, support for industrial R&D was third in terms of government expenditure. Cfr. Rivlin, 1991.

[7] Razin E., "Shift in Israel's Industrial Geography", in in Gradus Y., Lipshitz G. (eds.), *The Mosaic of Israeli Geography*, Ben-Gurion University of the Negev Press, Beersheva, 1996, p.208.

[8] Source: Israel Statistical Abstract, 1999 – data 1995