

Chapter 9

The Crisis of Fordism and New Economic Sociology

As comparative political economy emerged, economic sociologists once again began to take a serious interest in the macro-level issues raised by the new tensions and transformations of the Keynesian welfare state. At the same time, however, a theoretical and research problem also emerged, traceable to the micro level, and concerning the important changes that the organization of firms and production processes were undergoing. In other words, during the seventies not only were the relations that had been introduced in the post-war boom period between the state and the economy undermined, but new tensions also affected the production model based on large and mass production firms. And, in this case too, the attempt to understand these problems and changes drew attention to institutional factors.

While macro studies focused on the system of interest representation, the composition of governments, and the structure and efficiency of the state, the micro-oriented studies analyzed the institutional factors influencing processes of innovation and adaptation to more uncertain and unstable market conditions. In other words, attention shifted from the regulation of demand to the question of how institutions influence supply – including the innovation of product and productive processes, the growth of entrepreneurship, the professional training of workers, labor relations at the firm and local levels, the availability of services and infrastructure for firms.

A new economic sociology thus began to emerge at the micro level, focusing on these topics. It centered on the origins and developments of a productive organization based on flexibility, i.e. on the rapid readjustment of productive factors to exploit the opportunities offered by technological innovation, and increasingly segmented and unstable markets. However, together with these research-driven studies, another more theory-driven approach should be mentioned. This involved the attempt on the part of both economists and sociologists to provide new conceptual tools to analyze the increasing variety of productive organization. Besides market and hierarchy (i.e., the firm functioning as the bureaucratic organization), an increasing number of hybrid forms were developing, based on a more or less formalized collaboration between firms (joint ventures, alliances, cooperation agree-

ments, controlling relations, etc.). Therefore, the debate revolved around questions concerning the emergence and use of hierarchy, market relations, and other more varied forms of cooperation in economic processes. On the economic side, there were attempts to deal with these questions by developing a type of neo-institutionalism that redefined the theory of action traditionally used by economists, explaining the choice of different institutions in terms of a rational search for efficiency. Meanwhile, a new form of economic sociology began to emerge at the micro level, which linked the emergence and operation of different economic institutions to cultural factors, networks of social relations, and trust.

The last issue to be discussed in this chapter concerns consumer behavior. Given the growing differentiation of consumption, the aim of these studies was to go beyond both the traditional atomistic and utilitarian theories developed by economists, and those focusing on the critique of "consumer society," more frequently developed by sociologists. While the latter underlined the dependence of consumers' choices on pressures exercised by advertising and mass media, new studies analyzed the choices of goods as an active process of identity construction involving lifestyles and different types of consumption, and not only as an expression of the search for status *à la* Veblen.

1 The Crisis and Transformation of the Fordist Model

As already mentioned, it was during the last century that the model of economic organization usually referred to as "Fordist" or "Fordist-Taylorist"¹ spread out all over the world, particularly in the twenty years following the Second World War. It was based on large firms whose principal characteristics can be summarized as follows:

- 1 Firms were vertically integrated, that is, they included different productive stages which were previously carried out by different firms. This could also extend to forward integration of distribution, for reasons tied to maintenance requirements and customer assistance, which influenced control over the market. However, integration could also extend backwards, to the control of the raw materials and basic components that were necessary to guarantee the stable supply of the inputs necessary for production. In many cases backward integration also included research and development services. The complexity of the productive units and the risks which came about, the problems of organizational coordination, and the high needs of financing led to an overall growth in the size of firms;
- 2 Firms were committed to mass production, that is, the production of standardized goods through special-purpose machines; this allowed them to lower their costs, exploiting the new technologies for enhancing economies of scale. High levels of production allowed unit costs to decrease;
- 3 Production was carried out by a relatively semi-skilled labor, which was organized along the lines of the "Taylorist" model, that is, it was highly fragmented. The work itself was sub-divided into simple and repetitive tasks, limiting workers' autonomy. The division between conception and execution was clear-cut and rigid, and the firm functioned like a large bureaucratic organization, based on hierarchi-

cal control. Management played a central role, coordinating, integrating and controlling overall productive activity. There was thus a separation between the ownership of the firm, which could remain within a family or be distributed among various shareholders, and the management, which was entrusted to professional managers.

The use of this new model of productive organization had already been noted in the first studies of economic sociology (in the work of Sombart and Weber, for example). Over the last century, however, it became much more widespread. This can be explained by several factors. First of all, there was the spread of electricity as a source of low-cost, easily distributable energy; together with this, there was a widespread improvement in transport and communication. The former enabled a mass market to be established and supplied, while the revolution in the instruments of communication was essential to coordinate the flux of traded goods (Chandler 1977). However, this does not mean that the model was adopted uniformly in all productive sectors, or that it spread with the same intensity and pace in all industrialized countries.

Concerning the first point, several technological factors, together with the extension and stability of the market, prevented this model from being introduced into all productive sectors. The new technologies were extremely expensive and investment in dedicated machines, that is, tied to the production of specific products, was necessary. Only where there was a stable and wide market could economies of scale be adequately exploited, allowing high returns to finance the substantial investments required. However, for several types of production this was not possible. For example, there was still a substantial demand for non-standardized goods, and, it should be added, even mass production required specialized (non-standard) machines. This kind of demand was thus both limited and non-standardized, and it allowed small to medium-sized firms to cater to the need for machine tools and special machinery. In addition, the demand for high quality consumer goods – which was obviously lower on account of the costs involved – could not be satisfied by the Fordist model. Other kinds of goods, not all of a high quality, fueled a variable demand as a result of varying tastes and fashions. Thus, for example, in textiles, the fashion industry, furniture and other sectors where the market was fragmented and variable, smaller firms, run according to more traditional models, maintained their importance.

A final variant was linked to the presence of smaller firms, which were used by larger ones to cover cyclical variations in demand. A form of decentralization of productive capacity was created through subcontracting relations, the goods produced being marketed by large firms. In other cases, cash savings on labor costs in the productive stages that were simpler and labor-intensive fed the process of decentralization. For all these reasons, Fordism has to be considered as an ideal type that in real economies shared the market with other differently organized sectors – or parts of the same sector – and with a large number of small and medium-sized enterprises (SMEs) run on a traditional basis (personal entrepreneurship, machines used for multiple products, non-Taylorist organization of labor, or more skilled labor) (Berger and Piore 1980; Bagnasco 1988).

Another point also needs to be considered. The rapidity with which the Fordist

model spread varied considerably across different countries. These differences were the result of different institutional factors. The size of the market for mass-produced goods was clearly influenced by the size of the state and the level of protection of the national economy, and this was in turn dependent on policy choices. In addition, the same national market could be more or less favorable to mass production, as a result of the differentiation of tastes and lifestyles, and thus of social stratification and national cultures. These features emerged clearly when American, European and also Japanese experiences were compared (Piore and Sabel 1984; Rosenberg 1976).

It is no accident that Fordism first emerged in America and that it took root very quickly in this particular context. In the first place, there was already at the beginning of the century a large national market, unified by early communication infrastructures, in particular railways. Second, the United States was a country of immigrants, so it was not characterized by the social differentiations typical of Europe, and it had a growing population that was much more open to consuming standardized goods. Moreover, unlike the European context, its striking economic development was determined by a strong lack of skilled labor. This meant that firms were particularly favorable to introducing production methods like the Taylorist ones, since these allowed for the rapid use of low-skilled immigrant labor, leading to high savings in costs. Given the absence or lack of these factors Fordism arrived in Europe later and in more limited forms. Here, small firms remained more widespread and they were often integrated at the local level into what Alfred Marshall called "industrial districts" (Marshall 1890, 1919; Becattini 1987, 1990). Organizational forms of this type existed for many years and resisted changes of any sort in many European countries (Sabel and Zeitlin 1985). Another point is that not only did Fordism spread at a pace and to a different extent outside the United States, but its characteristics were affected by different national experiences. Economic historians have studied these differences, showing the influence of several factors such as the ownership and management of firms (corporate governance), the financial institutions (the role of stock exchanges *vis-à-vis* banks), the internal organization of firms and labor, and also factors that have been dealt with in the previous chapter, such as industrial relations, and relations with the state.

Despite these differences, Fordism took on a similar form over different countries, these similarities being reflected not only in the organization of productive processes, following the patterns outlined above, but also in industrial relations and the role played by the state. Particularly after the thirties, the need for economic stabilization led to the extension of collective bargaining and the institutionalization of industrial relations in order to reduce conflict and guarantee the collaboration of a large and homogeneous working class in the factories. In addition, precisely to reduce the gap between production and consumption, various forms of demand management were undertaken by states. In this way, industrial relations and public intervention managed to stabilize the market, creating the favorable conditions for the full development of mass production that characterized the post-war period.

There are therefore very close links between Fordism at the micro level and the Keynesian welfare state at the macro level. It is precisely by taking account of this

integration that the tensions and transformations of the Fordist model at the beginning of the seventies can be understood. For the first point, suffice it to recall here the crisis factors already discussed in the previous chapter (section 1.2, chapter 8). The saturation of the mass-production market restrained the growth of Fordism. In addition, stronger competition from newly industrialized countries, with their lower labor costs for lower quality productions, worsened the situation. The increase in oil and raw materials prices determined, in turn, a rapid change in those conditions of low input costs that had also favored the Golden Age of high growth. Moreover, the breakdown of fixed exchange rates and the greater instability that came about on the international markets did not help the old production model. Finally, the explosion of industrial conflict in the early seventies also reflected, as mentioned above, a situation of full employment, which strengthened the working classes' claims. In addition, it produced a reaction against intensification of Taylorist work organization, which had been attempted in the late sixties to deal with the growing competition between firms.

All these factors – some of which were structural, others conjunctural – undermined the Fordist model in industrialized countries by weakening the stability in labor and product markets that was necessary for its high level of specialized investments. However, as we have seen, these crisis factors acted more or less strongly depending on the capacity of the institutional setting to reduce industrial conflict and to sustain demand. In other words, where there was a more highly structured representation system of the neo-corporatist type, together with concertation practices, the crisis of Fordist firms was less marked. This was certainly the case in some European countries such as the Scandinavian ones or Germany. Where neo-corporatist trends were weaker or absent, such as in the United States, the United Kingdom and Italy, the shock was stronger and the social costs higher.

However, even in neo-corporatist settings, the decline of Fordism could not be avoided. The whole process was linked to several structural changes that conditioned the strategies of firms at the micro level. In other words, the saturation of mass goods markets in richer countries was a serious and long-lasting constraint. An increasingly diversified demand for higher-quality goods emerged in these countries. It was promoted by income growth, but above all by the formation of new and better-educated social groups developing new lifestyles and consumption patterns. This phenomenon, therefore, cannot be simply related to higher incomes and to a sort of fixed hierarchy of inferior and superior needs, but involves social and cultural changes. This point will be discussed in greater detail below; suffice it here to underline the consequences for mass markets. The demand for mass-produced goods shrank further and became more substitutive than additional. However, new possibilities opened up for firms in the area of diversified and customized goods of a higher quality. Often it was these same firms which oriented consumers towards these goods, as a strategy for dealing with the difficulties of more traditional production (Piore and Sabel 1984).

A second factor favored and promoted the attempt to move towards a more diversified and better-quality production. This involved the introduction of new electronic technologies. The possibility of using computers in the productive process had several far-reaching consequences. It was now possible to program machines so as to use them for different tasks and products. In other words, the new

technologies could be reprogrammed through changes in their software. This meant that flexible production costs could be lowered significantly: it was possible to produce non-standard goods of high quality in small series and at a lower cost. Both large mass-producing firms that moved upmarket by increasing quality and smaller artisan firms that extended their quality production were able to take advantage of these new techniques.

These changes in the market and technology allowed firms to react in terms of flexibility, diversification of models, and quality. That is to say, it became more feasible to meet the highly variable demand for high-quality goods produced in small batches, and for which consumers were willing to pay higher prices. In this way, firms could avoid competition with countries with lower labor costs in mass production. Naturally, this did not mean that mass production and the Fordist model were completely abandoned by firms in the more developed countries. Together with the strategies aiming at flexible and quality productions, there were others which tried to reorganize the Fordist model and to occupy the market left to mass production in both developed and undeveloped countries, though this occurred more in the latter. From this point of view, two different trends need to be taken into account: the use of new technologies to reorganize the Fordist model and the push towards the growth of multinational companies.

Concerning the first strategy, a "neo-Fordist" model of adaptation can be detected (Sabel 1988), also defined as "flexible mass production" (Boyer 1988). In this case the objective was to increase the variety of products without abandoning the basic production model, thus maintaining the separation between the conception and execution as well as the rigid organization of work. The development of new products remained centralized, although attempts were made to save time through new technologies. Subcontractors continued to be highly dependent, and the operative units less autonomous from the headquarters. The most important innovation took the form of "programmable automation," with the widespread use of automatic machines like robots in production. This led to a saving in the use of labor, but also to more limited retraining opportunities and lower levels of involvement of the workforce, and therefore was also described as "computerized neo-Taylorism" (Bonazzi 1993). Moreover, in other cases large mass-production firms invested directly abroad, and especially in developing countries, through multinationalization strategies. In this way they attempted to recreate the advantageous conditions which were previously available in the highly developed countries: a growing market with lower labor costs.

In conclusion, we can thus say that, particularly from the seventies on, a clear diversification and pluralization of productive models occurred. The institutional context played a crucial role in filtering the various strategies. To understand these processes, however, it was no longer sufficient to examine the macro-economic level and the role played by the state to see why some countries and regions adapted more rapidly and effectively to the new situation. What was also needed was an analytical perspective on the interaction between firms and the social context in which they are inserted. It was at precisely this micro level that economic sociology began to investigate. In particular, its focus moved to the relations between the institutional context and the new flexible production models.

2 Flexible Production Models and the Institutional Context

It was small firms that initially aroused the most interest. The dynamism of several regions dominated by many SMEs contrasted strikingly with the vision that had consolidated over the preceding years and which viewed large productive structures as being the most vital and innovative component of the economic system. Soon, however, it became clear that new experiments and organizational changes were also beginning to affect larger firms. In both cases, the attempt to understand the most successful processes of adaptation led to the highlighting of institutional factors and their influence on flexible production models.

In their book *The Second Industrial Divide*, published in 1984, Michael Piore and Charles Sabel made a particularly important contribution to this perspective. They outlined the model of *flexible specialization* and contrasted it with the Fordist model of mass production. While in the latter, as we have seen, the production of standardized goods made through specialized machines and semi-skilled labor prevails, the flexible specialization model features the production of non-standardized goods through universal machines that can be used for different models and more skilled labor. The emphasis was specifically placed on the new electronic technology that reduced, as pointed out above, the cost of flexible and diversified production. As a result, a neo-artisanal model could emerge, differing from its traditional predecessors because of its technological dynamism and the wider scope for innovation. Piore and Sabel noted that flexible specialization transformed large firms, especially in countries such as Germany and Japan. They mainly focused, however, on the new possibilities that opened up for small firms.

The ensuing studies, including contributions by Sabel himself (1988), developed three main features. The first was the persistence of mass production through the "neo-Fordist" reorganization mentioned above. The second referred to the extension of flexible specialization to large firms, with their internal transformation and the growth of cooperative relations with sub-contracting firms. The third involved the analysis of institutional factors allowing forms of cooperation to be established between management and workers and those between firms. This cooperation appeared to be necessary for the emergence and functioning of flexible models with a high level of innovative capacity, good labor conditions, and high wages.

In discussing these developments, I shall first concentrate on the phenomenon of small firms and industrial districts, and later on the transformation of large firms. Finally, I will discuss what might be called the other side of flexibility. In other words, I will examine forms of productive organization mainly based on low wages and unfavorable conditions for labor, in the so-called "informal economy." The boundaries between "high" and "low" paths of flexibility are not always easy to trace and the differences between them, as well as the links, require careful analysis.

2.1 Small firms and industrial districts

In several countries, the phenomenon of industrial districts formed of SMEs and concentrated in particular regions, can be seen very clearly. In some cases, these

areas were already characterized by productive structures of this type, which, especially during the seventies, began to be characterized by a strong dynamism. In others, concentrations of new firms and productive specializations emerged for the first time. The sectors involved include both "traditional" (textiles, clothing, footwear, furniture, ceramics, etc.) and "modern" products (mechanical engineering, machine tools, electronics and computer industry, etc.). Two combined factors are crucial for the emergence of industrial districts – first, the production process must be divisible into different and technically separable stages, to enable firms to specialize in a certain stage or in the production of a particular part; second, the types of products involved are usually subject to a large quantitative and qualitative variability of demand, requiring flexible forms of organization.

Different examples of districts of small firms have been found by research carried out in different countries over the years (Sabel 1988). Particular attention has been devoted to the Italian situation, given the diffusion of these local productive systems in this country, giving rise to the concept of the industrial district. Local systems of SMEs – although not necessarily industrial districts – have also been signaled in several German regions, in particular in Baden-Württemberg, in Jutland in Denmark, in Småland in Sweden, in several areas in Japan, France, Spain, and also in some regions of the United States, like Silicon Valley in California, Los Angeles, and Boston. Given the importance of the Italian case and the development of the literature on this area, it may be useful to focus on some particular features of this experience.

Industrial districts in Italy

During the seventies, the number of small firms increased sharply overall, although this occurred particularly in the northeast and the center. Indeed, this area came to be known as the Third Italy, to distinguish it from the northwest – the first industrialized area in Italy – and the south – where the process of industrialization was very limited (Bagnasco 1977). Small firms usually show a peculiar feature: they are concentrated in local systems, that is, in small urban areas (usually with no more than 100,000 inhabitants), constituted by one or more neighboring municipalities. These local systems may be identified through integrated labor markets (i.e. in terms of travel-to-work areas) and show a certain level of sectoral specialization in "traditional" but sometimes "modern" products (especially mechanical engineering and machine tools). When sectoral specialization and integration between small firms are high, one can speak of real "industrial districts." This concept was first used by Alfred Marshall (1880, 1919) and subsequently re-elaborated to analyze Italian economic development in recent decades (Becattini 1987, 1990; Brusco 1989; Pyke, Becattini, Sengenberger 1990).

A district is formed, then, by many SMEs, each specializing in a particular stage or in the production of a particular component of the productive process. Only a small group of these firms has any direct relation with the final market, however. Their task is to deal with orders, to decide on the quantity and quality of the goods to produce, and to entrust actual production to the "stage firms" (i.e. subcontractors). They act as coordinators of the overall process. In other words, production takes the form of a decentralized process and presupposes a high level of collabo-

ration between specialized subsuppliers and parent firms. In some cases, the parent firms are large and not only coordinate but also carry out some of the stages internally. Sometimes the kinds of collaborative relations they have with their subcontractors are formalized, including agreements or forms of ownership control. This has increased over time to deal with problems of innovation and the improvement of quality.

Two features in particular have emerged from investigation of Italian districts. First, it has been noted that the capacity of individual firms to respond in a flexible way to market changes is based not only on their use of new technologies, but above all on cooperative relations between them. Second, their capacity to innovate and improve the quality of the goods is made possible by the existence of economies that are external to the individual firms but internal to the area in which they are localized. This involves the existence of specialized collaborators, of a labor force that is also specialized and skilled, and of collective services and infrastructure. But it also depends on intangible factors that influence productivity. Marshall was referring to these factors when he spoke of an "industrial atmosphere," characterized by the circulation and rapid diffusion of knowledge and information and by the development of continual incremental innovations.

One important aspect of this phenomenon is the availability of cognitive resources that form over time, leading to "tacit knowledge" or "contextual knowledge" (Becattini and Rullani 1993). In other words, they lead to a widespread know-how and to a shared language that allows "codified knowledge" based on scientific and technical development to be adapted to specific production problems. However, together with the influence of these cognitive components on productivity, there are also others of a normative type that are no less important. In fact, the flexible specialization model requires cooperation within and between firms to be supported by factors of a cultural and institutional nature. Indeed, research has highlighted the role of such factors, in both the origins of districts and their subsequent functioning.

Three factors appear crucial for the development of the small-firm economy and the districts, mainly in the so-called Third Italy (Bagnasco 1988; Trigilia 1986; 1990). First, there was a network of small and medium-sized towns in which widespread traditions of artisan and commercial practices already existed, and which had not been eroded by the first wave of industrialization, mass-production, urbanization, and immigration. It was largely from these traditions – formed over the course of history – that the entrepreneurial resources for small firms derived. In many cases the role played by good local technical schools was also important. A second important institutional factor was the state of agriculture before industrialization, particularly where these were self-employment and large families (share croppers and small peasants). These rural groups supported the initial formation of a flexible and cheap labor force, with the basic skills and motivations adequate for the development of a small firm. A third important factor was the strong rooting of traditions and local political institutions linked to the Catholic, Socialist, and Communist movements. These areas were therefore characterized by political territorial subcultures which strengthened the trust relations that were so important for the development of the small-firm districts; they also influenced industrial relations and the role of local governments. Industrial relations developed on a coop-

erative and localist model. Local governments in turn provided – directly and indirectly – social services favoring labor flexibility, and often provided services and infrastructure that were crucial for economic development (well-equipped industrial areas, support for professional training and other services for firms).

This cultural and institutional picture is important not only to explain the origins and territorial concentration of the districts and small-firm areas, but also to understand how they operate. First, it is evident that production requires a high level of cooperation between firms, and between entrepreneurs and workers in the productive units. Subcontractors experience a high level of competition within the productive stages in which they are specialized, but this is mitigated by cooperative mechanisms, so that the subcontractor or the parent firm do not try to maximize their short-term utility when they enjoy a more favorable market position. This allows reciprocal advantages in the medium and long term, for example, in terms of delivery dates or in innovation processes that imply risks for both sides. These forms of cooperation, which integrate competitive mechanisms, are based on trust relations supported by the cultural and institutional factors described above.

However, cooperation between firms is often more formal and organized. The small size of firms means that it is difficult to develop internally the services necessary for innovation and growth of productivity. These include professional training, the spread of information on markets and technologies, the promotion of exports and the problem of waste disposal. The success of the districts is thus dependent on their capacity to produce collective goods that individual productive units are unable to do or have no interest in doing on their own, but on which their performance depends. The ability to produce collective goods becomes an important instrument to strengthen the external services crucial for the district. This problem is frequently handled by service centers that are created and managed by local business organizations. In some cases, unions also participate, particularly in the area of professional training. Usually, these initiatives are also supported by local and regional governments.

Finally, additional forms of cooperation have also been set up with regard to the labor market. Production in the districts requires a high level of flexibility in terms of schedules and overtime, as well as the willingness to carry out different tasks and to contribute to the quality of production. Flexible production also leads to a high level of labor mobility between firms in the district because of the high turnover affecting small firms. Acceptance of this type of labor relations is certainly favored by the particular cultural and community framework that was outlined above; over time, however, another specific form of political regulation has also developed, tied to cooperative industrial relations. In other words, both the industrial relations and the actions of the local governments have encouraged the social acceptance of this model of development through forms of redistribution devices of the produced income. Therefore, the role of political redistribution should not be overlooked *vis-à-vis* the mechanisms of reciprocity, linked to family and kin ties. In this sense the social construction of the market is a crucial aspect of the success of districts in flexible specialization.