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WORKING PAPER SERIES

CULTURAL DISTRICTS AND ECONOMIC DEVELOPMENT

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Abstract

The aim of this paper is to analyze the economic properties as well as the institutions governing the start-up and the evolution of cultural districts. Cultural districts are a good example of economic development based on localized culture. The first part of the paper (sections 1-3) reviews the relationships between culture, viewed as an idiosyncratic good, and the theory of industrial districts. The sections 4-6 of the paper present a discussion of two models of cultural districts: the *industrial cultural district* (mainly based on positive externalities, localized culture, and traditions in “arts and crafts”), and the *institutional cultural district* (mainly based on property rights assignment and symbolic values). The section 7 deals with other models of *quasi-industrial-districts*, namely the *museum cultural district* (mainly based on network externalities and the search for optimal size), and the *metropolitan cultural district* (mainly based on communication technology,

performing arts, leisure time industries and e-commerce). Policy issues will be analyzed in the final section 8. The hypothesis of a possible *convergence* of all districts models towards the institutional district, based on the creation of a system of property rights as a means to protect localized production will be discussed.

1. Culture-based goods and endogenous economic growth

1.1 *Culture matters*

Culture matters not only because it represents the anthropological image of the material, spiritual and social life of a people, but also because it is a basic resource for sustainable economic growth. Defined in its broadest sense, the notion of culture encompasses a wide range of idiosyncratic meanings: historic, political, legal, technological and artistic. In this paper, the concept of culture is thus used in the sense of cultural capital (Scott, 2000; Throsby, 2000). Culture is a capital asset accumulated by a community whose members refer to it to connote their identity. Moreover, this cultural capital, tangible and intangible, enters the production of material and immaterial culture-based goods through two strategic inputs: human creativity and human intellectual activity. Along with knowledge-based goods (Arthur, 1994), culture-based goods share the privilege of being at the edge of a new wave of economic progress based on glocalism (localized globalism), which has been made possible through information and communication technologies, conditions of increasing returns and new creative economics. Moreover the sectors that make the culture-based goods "... are all engaged in the creation of marketable outputs whose competitive qualities depend on the fact that they function at least in part as personal ornaments, modes of social display, forms of entertainment and distraction, or sources of information and self-awareness, i.e. as artifacts whose symbolic value to the consumer is high relative to their practical purposes." (Scott, 2000, p.3)

In fact, almost 3.5 million jobs in Europe have been created around *art and culture*, and more than 2% of the 1995 European labor force was employed in fields related to the sector (European Commission, 1998; Greffe, 1999). On a smaller scale, *art and culture* can prove even more significant, as epitomized by the film industry in Los Angeles, which accounted for as many as 5.3% of the city's employees in 1997.

Owing to its economic characteristics (strong intellectual and creative component, increasing returns, flexible specialization), its social traits (rich symbolic content, high power of identification) and its positive impact on other economic fields (namely in tourism and the environment), culture is a resource of extreme interest. This is true not only for industrialized Western countries, but, above all for newly developing regions.

Nevertheless, the idiosyncratic and symbolic nature of cultural goods has been neglected for a long time. The virtues of competition, Fordist mass production and the paradigm of consumer sovereignty forced into the background the economic, technological and social advantages of localized industries (Becattini, 1987, 1989; Bagnasco, 1977; Pyke, Becattini and Sengenber, 1992; Salais and Storper, 1993), and of *cultural districts* as well.

According to the Italian national statistics bureau, the approximately 200 industrial districts surveyed employ 40% of the total labor force, some of whom are involved in the production of cultural design-based goods. Small and medium-sized enterprises (SMEs) in Sassuolo have a 39.2% share of world exports of decorated and designed tiles and pottery; Biella's and Prato's SMEs have a share of about 35% in the sales of prestigious wool clothes and apparel; Vicenza's and Arezzo's districts produce a 27% share of the world export of jewelry, which is of clearly evident aesthetic quality. Table 1 shows the impressive capacity displayed by the industrial district formula in magnetizing international demand for wares made in Italy. This outcome is one of the strongest indications of self-enforcing and sustainable growth generated by cultural districts.

| Table n.1 Italian Industrial Districts | | |
|---|----------------------|----------------|
| <i>Italian districts' share of the World Export</i> | | |
| Commodity | Place | Share % |
| Tile and Pottery | Sassuolo | 39.2 |
| Wool Cloth | Prato | 19.6 |
| Wool Cloth | Biella | 14.0 |
| Gold and Jewelry | Vicenza | 14.0 |
| Gold and Jewelry | Arezzo | 13.0 |
| Silk | Prato | 19.6 |
| Eyeglass Frames | Belluno | 17.6 |
| Sofas and Chairs | Santeramo, Altamura | 7.2 |
| Sofas and Chairs | Magnago | 6.9 |
| Furniture and Kitchens | Alto Livenza | 7.7 |
| Furniture and Kitchens | Pesaro | 3.2 |
| Tanned Leather | Arzignano | 10.0 |
| Tanned Leather | Santa Croce | 6.0 |
| Shoes | Fermo, Civitanova M. | 6.0 |
| Pots and Cutlery | Lumezzane | 4.1 |
| Faucets | Lumezzane | 3.8 |

Source: M. Fortis, Montedison, Università Cattolica, Milano

1.2 *Marshallian localized industries*

The first to turn his attention to localized industry was Alfred Marshall. The basic elements of his theory of localized industry are outlined in *Principles of Economics*, book IV, chapter X: *The concentration of specialized industries in particular localities*. Marshall's original idea was profound and rich with potential for development, yet the author's own reflections were confined to an historical argument: for Marshall, industrial districts were a thing of the past. They were understood as nothing more than a specific phase resulting from the effects of the division of labor upon technological innovation, processes, and organization¹. At the end of the century when Marshall was writing, economists were confident that the evolution of transport and the widening of the labor market would render industrial districts increasingly less valuable and competitive: the era of the big firm was already looming ahead. In this perspective, the shift to mass production - whether favored or not by industrial policies of the central government - was one of the factors that ushered in the decline of some old districts such as Sheffield (UK) or Saint'Etienne (France).

Nevertheless, as can be learnt from the recent Italian and international experience, industrial districts have become a good example of sustainable and endogenous growth. In this perspective, the presence of small firms is essential to a district, but the presence of many small firms does not in itself form a district. One of the most meaningful characteristics of a district is the interdependency of its firms: in this type of "industrial atmosphere", frequent contact favors the exchange of specialized inputs; continuous and repeated transactions cause the information to circulate. Within the districts it is easier to find contractors, to verify the quality of goods and services and to sign standardized contracts. The social habitat of the industrial districts is made up of large families and of firms where the entire household, including the wife and children, are employed. Tacit knowledge, mutual trust and the accumulation of social capital are pervasive traits of local society and culture.

Moreover, when most of the economic and human resources are local, the economic process becomes endogenous. Of course, such evolution requires continual adaptation, but the strong advantages in providing technological innovation, sharing information, differentiating products,

¹ Marshall himself stressed this point: "In the history of oriental civilization and in the chronicle of medieval Europe" (Marshall, 1920: p.268) is full of examples of industrial districts in many branches of production.

regulating the market and fostering idiosyncratic cultural links are reliable guarantees of sustainable growth (Piore and Sabel, 1984).

Art markets, the performing arts, museums and cultural heritage, and design-based goods, can all be articulated in *filieres* (chains of creation of value) with innovative experiences apparent at every level: aesthetic, legal, productive, distributive, technological and educational. Moreover, such activities take on new economic significance when they assume the form of, and are governed in the logic of *industrial districts*; they create a path to economic growth by means of growth of small and medium-sized firms which are intensely integrated within the territory and in the local community. In this sense, Italian industrial districts, such as those producing glass in Murano-Venice² or woven goods and apparel in Prato or Biella, constitute an ideal model for the production of cultural goods.

1.3 *The markets globalization and the cultural district formula*

Another argument enlightening the role of culture and cultural districts vis-à-vis the sustainability of the economic development is the globalization of markets.

The globalization is a sort of new economic order - but someone might call it disorder - led by groundbreaking changes in information and communication technologies, new international rules for trade and free circulation of capitals and people, and the decrease in transports costs.

One of the main effects of this new economic order has been not only a phenomenal expansion in trade but also a significant change in the nature of the firm, due also to the emergence of newly industrialized regions with low costs of manpower. This new scenario is based on the divide between the creation of the intellectual/cultural component of a good and the physical production of the good itself.

The traditional analyses of an industrial sector were mainly based on the centrality of the productive level. Today new stages become important, namely those connected with intellectual production. If yesterday we thought of a factory built to transform raw materials into objects, today we may think of a firm built around an idea, a concept. So, culture and intangible inputs matter more and more. The new nature of the firm splits it into two sub-systems : the episteme community, i.e. the entrepreneurial working on ideas, and the communities of practices, the managers' job. This corresponds to the *dematerialization* of the old industrial products.

The original production models - the fordist firm based on mass production and the post-fordist one based on organizational flexibility and low labor costs - are shifting to a new superior phase. The original technology used to transforming and manufacturing raw materials into final products is now moving abroad to contractors and licensees in search for lower labor costs. The non-dematerialized part of the product is involved in a process called delocalization or *economic runaway*.

Economic runaway is a step, which follows the decentralization process when medium and large sized firms were looking for small, sometimes illegal, firms, more flexible and performing at lower costs different part of the production process. Nevertheless this process of globalization-delocalization may be a threat both to the original areas, which are in some sense weakened from the loss of productive activities, and to many destination localizations, whose cultural assets cannot be protected, like in the music production case in Africa or toys invention in Indonesia.

Thus in particular, while globalization means delocalization of the firms in search for low labor costs, the sustainability is deeply connected to the culture, that is, to some idiosyncratic asset that cannot be eradicated, that cannot be delocalized. In other words the local culture, the ideas, and the esthetic design - in one world, what is rooted in the local culture: its intellectual property, its intangible capital, cannot be delocalized. The *creative runaway* is a sort of contradiction.

As we will see later in more detailed way, we may assert that the more culture, intangible components or intellectual idiosyncratic inputs are dominant, the more localized, district oriented and space-specific the economic activity become. In sociological terms it is difficult to say whether the globalization helped the poor countries, or strengthened the power of the richest ones. In this view the cultural districts' formula is a way to keep sustainable the economic development of the one billion

² Murano Venice Cultural District in 2000: 278 firms; 2000 employees; 35% of export.

and two hundred thousand people leaving with less than a dollar per day, or the two billion people leaving with less than two dollars per day, i.e. more than 45% of the world population.

Cultural districts are a convenient place where produce goods based on the existing culture and intellectual local tradition, helping both in transition and developing countries to cope with the new form of international competition that is based more on the selection of the better ideas/qualities that on the lower labor costs.

Thus, the aim of this paper is to analyze the economic properties and institutions governing the start-up and evolution of cultural districts (from Hollywood to Spoleto; from Chianti-shire in Tuscany and vineyards in Bourgogne to car design in Turin; from the pottery district of Caltagirone in Sicily to the audiovisual district of Babelsberg in Berlin; from the fashion district in Milan to local museum networks in France).

The first part of the paper (sections 1-3) is dedicated to an introduction on culture-based goods and their idiosyncratic nature. The sections 4-6 of the paper present a discussion of two models of cultural districts: the *industrial cultural district* (mainly based on positive externalities, localized culture, and traditions in “arts and crafts”), and the *institutional cultural district* (mainly based on property rights assignment and symbolic values). The section 7 deals with other models of *Quasi-Industrial-Districts*, namely the *museum cultural district* (mainly based on network externalities and the search for optimal size), and the *metropolitan cultural district* (mainly based on communication technology, performing arts, leisure time industries and e-commerce). Policy issues will be analyzed in the final section 8. The hypothesis of the *convergence* of the cultural districts on the same institutional model, but also the role played by the exit option in the evolution of a collective property rights will be discussed.

3. Culture as an Idiosyncratic Good

In recent years, networks, systems, clusters and districts have become not only descriptive images of special economic contexts, but also an eloquent indication of economic policy, also within the cultural field. Nonetheless, the theoretical background of cultural districts has not been fully explored. In spite of the universal spirit of culture, districts that produce culture-based goods are mainly characterized by the idiosyncratic nature of their constitutive factors (Featherstone, 1996; Scott, 2000). Some theoretical arguments, which sustain the view of cultural districts, can be summarized according to the shared presence of idiosyncratic, peculiar, localized factors.

- *On the social and economic origins of the intangible localized culture.*

In the old times, when societies were very simple, the origin of a culture and the accumulation of cultural capital were linked to the demand, the needs and the internal organization of four primary social classes, which may be stylized into the following four categories: i) the *aristocrats*, that as a dominant class evolved the political culture and the art of government; ii) the *knights*, that enhanced the military culture, conservative, hard and fast in the total abundance of hierarchies; iii) the *merchants*, that were fostering and diffusing the culture of trades and markets; iv) the *clergy*, that developed communication by means of faith and myths.

The four classes share the sense of openness towards all that is out of the territory, in a word, that is international. Furthermore, they share a developed attitude to interpersonal relations and are highly motivated in the construction of good internal and external reputation.

Even if these four classes form the close texture that supports the origin of a localized culture, the specific content of the idiosyncratic culture often depends on the local tangible (mines, clay grounds, climate, water, etc.) and intangible (universities, cultural centers, monasteries, etc) resources.

What I am suggesting is that the presence of homogeneous natural and institutional resources in a political defined territory together with some combination of these classes may be the origin of an

idiosyncratic culture, peculiar to a community and transmissible between generations on a given territory.

- *Culture based goods as space-specific and time-specific goods*

Culture-based goods are among the most specialized goods. The culture has two profound anthropological roots: time and space. The production of a culture is indissolubly linked to a place, or in a social sense, to a community and its history.

The efficient economic behavior is mainly grounded on timeless and spaceless goods. On the contrary, the market becomes an imperfect institution, as and when it must regulate creativity and culture based goods, like fashion, design and art. Moreover the more time-specific and space-specific is a commodity, the less the market mechanism is able to efficiently regulate its production and consumption.

The more specialized and peculiar is a good, the less the price system provides the relevant information and the less the competition rule reaches its expected results. According to Salais et Storper (1993, p. 12): "Cette particularité signifie que le producteur ou demandeur ont imprimé une identité donnée au produit et qu'ils ont la capacité de la reconnaître. Sinon le produit se résumerait pour eux à un coût ou à un prix. Ce qui l'en écarte est qu'il incorpore un service spécifique en fonction du demandeur, un délai de livraison plus rapide, des savoir-faire, une technologie spécialisée ou une qualité que seul ce producteur peut maîtriser..."

- *Culture, creativity and generational goods*

The couple time/space, which characterizes the theoretical ground and the dynamics of the creativity, shows a significant ancillary trait. The creativity *per se* is the original and specific product of a generation. In the painting art, in the industrial design, in the motion picture industry, in the fashion market, even in the shapes and decorations of pottery objects, waves of creativity marked by a generation period may be looked at. Now, if the generations in their sequence are affected by various conditions of time/space, the rising dilemma is how to renew the production of creativity with the same quality. Each generation will produce its creative world, but the effects of this phenomenon on the structure of competition are unexpected and significant, in particular in the fashion market (Santagata, 2004). Moreover, the conflicting dynamic developed in the succession of one generation to the other has to be taken into account as well: the young actors of the emergent generation oppose the old actors of the dominant generation, that controls the instances and canons of the cultural production, in search for success and personal achievement.

The generation waves are result of the idiosyncratic character of culture-based goods: the couple Time/space has a formidable strength in creating the image and the reputation of a single generation. What was the essential nature of the pottery produced in Caltagirone during the 50's, it is not reproducible *tout court* in the 2000: the ideas, the culture, the communication technologies, the marketing practices and the style changed. Thus, every generation has its own identity, its own pace, and its own creative vein.

Today, the value of the trademark, even more relevant from the economic point of view, makes a *crescendo* of attention towards the succession of the generations, because what is at stake it is the increasing value of the reputation accumulated by the old actors.

- *Idiosyncrasy and cultural capital accumulation*

The cultural districts are defined by the production of idiosyncratic goods based on creativity, culture and intellectual property. The movie picture industry, the audiovisual sector, the wide field of the industrial design, of the arts & crafts, the museum services, and the eno-gastronomic territorial complexes, all draw inspiration from the cultural link with their own local original community. This strong link with the social environment together with its historic evolution is at the origin of a competitive discriminating advantage, because it is accumulation of cultural capital.

Besides the physical capital, the human capital, and the natural capital, referred to non-renewable resources, may be thus defined a fourth type of capital: the cultural capital. This is "... an asset that embodies, stores and provides cultural value in addition to whatever economic value it may possess" (Throsby, 2000, p. 46). Cultural capital exists in two forms, both idiosyncratic to the couple time/space.

First of all it may be *tangible*, taking on the form of buildings, sites, works of art and so on. Secondly it may be *intangible*, occurring as intellectual capital in the form of ideas, practices, beliefs and common values. So, both the tangible and the intangible cultural capital give rise to a flow of services, consumed or used along with other inputs to produce further goods, having both an economic and a cultural value (Throsby, 2000).

- *Cultural Creativity, Idiosyncrasy and Spatial Economic Processes*

According to standard neoclassical economics, in the long run, all industrial sectors should become asymptotically indifferent to any idiosyncratic spatial element. In other words, the behavior of economic agents converges on the search for minimum costs, and the marketplace inevitably becomes a global arena: this process continues efficiently and regardless of any local peculiarities. Yet the use of standards and the implementation of strategies minimizing costs does not always lead to a general spatial equilibrium, because the process of development could have a specific identity: it may be idiosyncratic itself. From the theoretical point of view, industrial districts offer proof that perfect competition is not always an equalizing spatial process (Marshall, 1920; Becattini, 1989).

Moreover cultural goods are based on *creativity*, and while "moving by foot", between regions or sectors, may have the standard equilibrium property (Tiebout, 1956), the same does not hold true for creative agents. They move about, in search of better opportunities to create, and they find them in localized places where increasing returns are made possible by the diffuse and free circulation of ideas, and where saturation is never attained.

- *Idiosyncrasy and Local Cultural Roots*

The industrial district, rooted in indigenous civilization, serves as an emblematic model for the four types of cultural districts to be discussed later. Cultural districts are defined by the production of idiosyncratic goods based on creativity and intellectual property. The movie industry, the audiovisual sector, the extensive domain of industrial design and the production of arts and crafts, museum services and the eno-gastronomic complex all draw their inspiration from some cultural link with their original local community. There they translate creativity into culture, and culture into valuable economic goods and services. This powerful link with the social environment and its historical evolution is the source of the main competitive advantages. Skillful manpower in the movie industrial system can be found in Los Angeles, not in Washington, and innovation in film making, as well as new technological processes, come out primarily from Hollywood. "Place, culture, and economy are symbiotic  another"³.

- *Idiosyncrasy and Tacit Knowledge*

Personal or tacit knowledge (Polanyi, 1958; Polanyi and Prosch, 1975) refers to an information system, which is simultaneously free and circumscribed within a geographic and communitarian space as defined by individual personal experience. Technological or cultural information is "in the air": it is transmitted by means of tacit systems of communication, as there is a gap between the technology, art, culture and the hard facts of experience. In other words, "Personal, tacit assessments and evaluations (...) are required at every step in the acquisition of knowledge - even "scientific" knowledge." (Polanyi and Prosch, p.31).

Culture-based goods are idiosyncratic because tacit knowledge is needed for their creation, technical production, distribution and also because personal knowledge relies on past personal idiosyncratic experience. So individual ability, tastes, lifestyles, social institutions and industrial organizations cannot be learned by mechanical transmission: personal and collective stories count.

³ Scott (2000), p. 4

4. Industrial Cultural Districts

5.1 *In Theory.*

The *industrial cultural district* follows the formula, which led to the international success in the 60's and 70's of the small, and medium sized enterprises of the "Third Italy", to use an idiomatic expression. Industrial cultural districts belong to the endogenous growth models based on the presence of small firms (Becattini, 1989; Storper and Harrison, 1991), basic social and cultural conditions (Bagnasco, 1988, 1999) going back to the grandeur of the renaissance "city-state", and of specific forms or social local regulation.

The basic components of this peculiar strategy of district building are based on:

- a local community, which is cohesive in its cultural traditions and in the sediment of accumulations of technical knowledge and *social capital* (trust and cooperation);
- a dense interaction between the cities and the country, from where came most of the active manpower working in the district's firms;
- a significative development of increasing returns to scale and increasing returns to scope;
- a low level of product standardization;
- accumulation of savings and the presence of strongly entrepreneurial cooperative local banking;
- a bent towards open international markets;
- public financial support along the entire chain of the creation of value;
- a high rate of birth of new firms, often of household size, as a result of *social capability* and *interactive learning*;
- and finally, the ability to be district minded, to become a local system, and to produce positive externalities in the field of design, technological innovation, managerial organization, the creation of new products, labor market flexibility and commercial distribution.

In economic terms, this means that within an industrial cultural district the costs of *the use of the market* are lower then anywhere else because of the intense creation of positive externalities, tacit knowledge, the high rate of innovation, easy networking and the cost-free diffusion of information.

Moreover, what is peculiar to industrial cultural districts is the "atelier effect" and "creative product differentiation". These can be thought of as two kinds of positive externality. According to the former, a great number of individuals are trained in the local cultural profession, so as to exceed the labor demand of the district and to make space for new entrepreneurial initiatives. According to the latter, industrial cultural districts accelerate the rate of birth of new products and new processes of product differentiation. As a result, buyers are likely to enter Commercial Centers where they can find a vast amount of product. For instance, in the textile and apparel district of Carpi (Italy), 700 firms employ about 18,000 workers. They are therefore able to present about 100,000 models in their pattern-books each season.

While the culture-based goods - I will discuss later the two opposite cases of the movie picture industry and the pottery production - due to their idiosyncratic nature, the embodiment of a high degree of intellectual property, a relatively low level of standardization, are in the better position to develop the agglomeration of an industrial cultural district, their variety leads to a large typology, according to the occurrence of high-tech or handicraft production; horizontal industrial integration or independent non integrated firms.

The technological issue is a real separating factor when we are dealing with mature industrial cultural districts. More precisely two varieties of cultural districts may be defined according to the nature of the technology involved.

- Sometimes the technology is high and sophisticated, like in the textile or fashion industries. The more the technology is important, the more a long value chain may be

expected. The production process is articulated in many phases, hierarchically connected, and the *final firm* has the important role of organizing the whole production process. A final firm is the last element of the value chain, strategic for being close to the consumers' preferences and choices. In this context the final firm may have incentives to buy the contractor's firms and to integrate vertically. The trend is toward a reduction in the number of firms and in a change of the district's industrial structure.

- Sometimes the cultural districts use a quite elementary technology. Glass, jewellery, or pottery production may be an example of how simple the technology may be. The less the technology counts, like in pottery, rugs, glass, soap, perfumes production, the less the value chain is long and the "final firm" *per se* counts. In this case each firm organizes its production and sells it in competition with the other local firms. The cooperation with the other firms located in other phases of the chain is more concentrated at the intellectual property and distribution level. The creativity counts more. In this context the trend is less evident. The growth of a firm is more tied to the waves of creativity, to its capability to develop collective property rights, and to expand toward collective distributive structures. In such an environment the number of small and medium sized enterprises might growth.

4.2 *In Practice: the Los Angeles Motion Picture Complex*

The motion picture industry in the Los Angeles County is a special case of industrial cultural districts internalized in a great metropolis (Garreau, 1992, Scott, 2000). In fact, its constitutive broad community, which is aware of being part of a relatively new culture and technological profession, is immersed into a wider basin of population. Its fascinating relevance is acknowledged worldwide "... because unlike many other case study industrial districts (Silicon Valley, Orange County, or Boston's Route 128, for example), its outputs trade on a pure cognitive register. For this reason alone, Hollywood is one of the most arresting examples of the burgeoning cultural products agglomerations that are on the rise all over the world today," (Scott, 2000, p. 972). Furthermore, Hollywood movie production⁴ has become a remarkable example of a well established and flexible network economy, emerging from the crisis of the *studio system* based on the old Fordist production processes (Christopherson and Storper, 1986; Storper, 1989). Vertical disintegration and product innovation have led to the need for specialized inputs served, at a relative low level of product standardization, by a cluster of creative and dynamic small-sized firms (table 1). At the end of the XX^o century Los Angeles County reached large numbers in the movie-picture and video production, in the provision of allied services and in the distribution sector, attaining about 180.000 employees and 6000 firms of 19 or fewer employees⁵. Social capability and interactive learning are the basic factor of the local expansion. Thus, it is non uncommon for such an agglomeration to create many kinds of external benefits and synergies.

In fact, the "atelier effect", or an efficient local labor market and the creative product differentiation are two special externalities that result directly from the way a movie is produced. Movie production requires the cooperation of a variety of professionals, including designers, painters, writers, photographers, craftsmen, stylists, musicians, multimedia experts, artists, wardrobe designers, tour managers and Shumpeterian entrepreneurs. When all these skills are mobilized for movie production, the sector becomes the forge and the source of a cohort of highly qualified workers. In turn, given that around 60% of the labor force is freelance, an immense workshop results in which every worker is the potential creator of a new firm. This potential is the local endowment of social capital.

⁴ On Hollywood as a cultural industry see: Bordwell, Staiger, Thompson, 1985; Hozic, 2001.

⁵ More detailed data from the *County Business Patterns* suggest that the median size of some 3500 establishments engaged in motion picture and video production was just two employees (Scott, 2000, p. 963).

In addition to its ability to train new workers, the motion picture industry creates new tie-in and licensed products: books, videos and paraphernalia, thus opening a large merchandising market. The same is true for the fashion and apparel industries, where, contrary to the French notion of haute couture, films and videos influence popular canons of beauty and fashion (Molotch, 1997, p. 244). Finally, "the localness of entertainment, its dependence on a particular confluence of cultural skills and expressivity, make it a business that cannot go offshore, cannot be imitated abroad, and cannot be branch planted. It is a "transaction rich" network of firms, and the nature of that transaction system has an idiosyncratic localness." (Molotch, 1997, p. 239).

| Year | Number of Employees | % of Total Employees | Number of Establishments | % of Total Establishments | Number of Establishments 1-19 employees | % of total Motion Picture Establishments |
|------|---------------------|----------------------|--------------------------|---------------------------|---|--|
| 1993 | 183783 | 5.2 | 5634 | 2.6 | N/A. | N/A. |
| 1997 | 188465 | 5.3 | 6573 | 3.0 | 5984 | 91,0 |

Source: Bureau of the Census, 1998, *County Business Patterns for Los Angeles, CA*.

Sharing a common trait of the cultural district, Hollywood motion picture complex is greatly open to the international market. Exports to Europe, Asia and Pacific, Americas, Africa, and Middle East grow a remarkable 364.7% since 1989 (Scott, 2000). The globalization process was firstly supported by a well-developed control of the distribution sector, but the often-untold help from US Government fostered by the lobbying activity of the American Film Marketing Association (AFMA) has to be mentioned.

The motion picture industrial complex in Hollywood could be perceived as a mature industry, yet the rate of birth of firms there is remarkable for such an old district: 188 new establishments appeared each year between 1993 and 1997 (with a yearly growth rate of 16,6%). This confirms the endogenous dynamic of this cultural district as well as its potential capability for allowing the cohabitation of a few major studios (the so called *majors*: Metro-Goldwin-Mayer, Paramount Pictures, Sony Pictures Entertainment (Columbia-Tristar), Twentieth Century Fox, Universal Studios, and Walt Disney Company) with a large number of small sized independent firms. This is a peculiar characteristic of the Hollywood district and anticipates in practice the expected evolution of other typical clusters of culture-based firms. In the latter case after years of relentless and severe internal and international competition some leading firms have emerged as production leaders, dominating the current market scenario crowded of small and medium sized firms. Nevertheless this bifurcation of the production system, which seems a factor of weakness in the other cultural districts, appears as usual business in the Hollywood system where the majors, together with their subsidiaries, internalize and multiply the synergies of the district, attracting and diffusing entrepreneurship at every level. The system works, strengthening the synergies with the many independent firms supplying different specialized services.

4.3 In Practice: the Caltagirone (Sicily) Pottery District

The pottery district of Caltagirone represents an example, among many others, of an Industrial Cultural District using very low technologies (Cuccia and Santagata, 2003). Caltagirone has been renowned since ancient times for its pleasing pottery, the elegance of its traditional design and the creativity of its craftsmen. Earth, fire and creativity, the three basic inputs of pottery production, have been furnished for time immemorial by the mines of clay, the woods and the cultural spirit enveloping the town.

At the origin of a localized culture there are two essential factors: some natural resource, which induces the indigenous people to specialize in a vocational craft, transmissible from a generation to another, and the presence of one or more leading classes expressing conspicuous or quality

consumption and developing relations with the external world for aristocratic, religious, military or merchant reasons.

In this vision the idea that the culture may be the unintended and unexpected result of a talented genius must confront itself with the fact that every discovery or innovation, also in the cultural field, is never random or made by chance, but the result of a large research project. The real *genius loci* is the set of local natural resources and emergent leading social classes.

The pottery production of Caltagirone, which means in Arabic "*the hill of the vases*", goes back to the Vth Century BC, but the real start-up comes with the Arabs domination during the XIth century AD, when they introduced the polycromy and the enameling.

The technology for producing articles in limited series or unique is elementary and stagnating. The vocational skills, which represent the cultural and identitarian base of the product, that are transmitted by tacite knowledge usually within the household, developed parallel to the demand. The demand was supported at the beginning by the Sicilian aristocratic families and by the clergy of the island. Thus, the first component of the pottery's demand was due to decorative reasons, symbolic uses and the art of *savoir vivre*.

This cultural district is small. It holds no more than 150 studios and laboratories, each of which corresponds in dimension to an extended family. The average size of each studio is small: not more than 180 square meters. The 80% of the studios control the production cycle from the raw materials purchase to the distribution of the final product. The employees were 266 in 1996 (the 0.36% of the employment in the industrial sector); 327 in 2001.

The local community is intensely linked to the pottery production. In Caltagirone there is an historical Museum of the Pottery, a regional training school for pottery handicraft, and a good tourism industry. Two guilds organize the institutional links with the local authorities, important channels for public subsidies and the forthcoming institution of a collective trademark.

Yet the main structural differences with the Los Angeles case concern three aspects: the intensity of the technical division of labor, the technological innovation rate and the range of products.

In Caltagirone, the division of labor is weak and the growth of technological innovation is stagnant. In fact, when the structure of a cultural good is elementary, such as with pottery or glass production, the whole filière is performed within a number of small laboratories under the direction of a lead craftsmen, whose skills, flexibility and creativity are the fundamental inputs of firms which sell the same limited line of objects.

Consequently, in this kind of industrial cultural district, many small production units share consistent positive externalities and social practices developed within the district, but are strongly competitive with each other. Moreover, each unit tends towards a full internal integration of the creative, productive and distributive phases of the value added chain. In particular, each studio tends to have a showroom in town or abroad, and a virtual site on the Internet. Finally, given the relative small division of labor, this kind of industrial cultural district does not develop specialized branches or new industrial activities. This in turn makes the industry more vulnerable to unexpected shocks on the demand side.

Nevertheless, two new factors seem to modify this scenario. Firstly, the accumulation of reputation may induce the localization on the site of new industrial activities from abroad. This is the case of industrial tile and pottery production, whose firms are interested in associating the renowned name of Caltagirone to their trademark. Secondly, web offerings – for example the designing of a portal - are usually created cooperatively, thus sharing positive externalities among a wide group of firms.

1. From Industrial Cultural Districts to Institutional Cultural Districts

Using the Industrial Cultural District as a policy instrument for local economic development is complicated because of its non-facilitating rigidities. The crucial requirements and necessary conditions for establishing an industrial cultural district are, in fact, difficult to be found anywhere.

The foundation of a cultural industrial district is conditioned by the local socio-economic context, implying two constraining consequences:

- It is not possible to follow a *rational constructivist approach*. To superimpose the design of an industrial cultural district onto an inadequate socio-economic structure inevitably leads to failure. The new inputs do not match with the old environment, the strategies become confused; the agents do not recognize the signals of the individual economic incentives. The local culture does not match with the new industrial one. Unfortunately, many examples can be given to illustrate this point.

- The industrial cultural district is the result of a long and often socially painful incubation. During that time, the process of settlement is spontaneous, market oriented and subject to “trial and error” feedback. In other words, we are witnessing a process of long duration (Scott, 2000, p.20). There is no one *specific factor* that causes or assists the appearance of entrepreneurial spirit. No one explicit start-up of the district exists. This is the strategic and political limitation to the construction of a cultural district based on the traditional industrial model.

Nevertheless it is not uncommon in the developing countries to find concentrations of small firms producing culture-based goods within an organizational and industrial frame, which is something, *less* than a cultural district. There are local economic forces, one or more pioneers, local and external demands, labor skills, learning effects, but what is commonly lacking there is an incentive system leading the main economic actors of such a place towards more efficient ways of investing, trading, communicating and marketing their products. In one word good institutions and good governance are lacking. Thus the problem becomes how to convey selected efficient institutions into the existing industrial clusters.

One potential solution is to focus on the function of the collective property rights in promoting market oriented incentives sustaining local development. The next section will be, thus, devoted to illustrate the class of institutional cultural districts.

Using collective property rights is a practice which may be carried out also in an industrial cultural district. So, for instance, when Caltagirone producers will design and implement a collective trademark for their pottery handicrafts, their district will shift to the class of the institutional ones.

6. Institutional Cultural Districts

The *Institutional Cultural District* is the second formula to be dealt with. Its essential characteristic is its grounding in formal institutions that allocate property rights and trademarks to a restricted area of production. These rights take on the meaning of *community or collective property rights*. In this sense, they legally protect the cultural capital of a community in a given area. Their protection concerns the intellectual and intangible components of the culture embedded in the goods and services produced. This right is normally established through the setting up of a collective geographical trademark that only the local producers can exploit.

The content of the goods produced in these districts is strictly connected to the local civilization and *savoir vivre*. Furthermore, the economic advancement of these products is naturally correlated with the local culture: the more their image and symbolic icon is identified with local customs and cultural behaviors, the more they seduce consumers in a cultural lock-in and the more their production is fostered. In this case, the importance of culture is all-inclusive, mobilizing the aesthetic, technological, anthropological and historical content of the district.

Once more, the Italian experience is meaningful and emblematic. In regions such as Piedmont-Langhe and Tuscany-Chianti the economic growth of well-circumscribed areas shows one decisive factor: the approval of bills assigning property rights to the products of local tradition in the enogastronomic sector. The property rights assignment mainly concerns the right to the *protected designation of origin* (PDO) and the right to “indication of provenance”, which both provide legal protection to a brand or a particular design.

However, as we will see analyzing the emblematic case of the wine cultural district of the Langhe-Piedmont, to trace a positive clear-cut correlation between the establishment of property rights and the economic success of a localized industry is difficult and non linear, due to the co-presence of many reasons. Nevertheless a strong indirect test exists: in recent years many other potential or historic districts have established collective property rights, both to consolidate, like in

Murano-Venice artistic glass production, and to startup, like in Caltagirone pottery production, a new localized economic growth.

6.1 Institutional setting

Concerning the institutions or conventions that govern the economic startup of potential cultural districts two main aspects may be worth noting: the presence of two models of cultures and the rationale for the assignment of collective property rights.

6.1.1 Two models of culture

Coming back to the origin of a cultural district is a sort of journey to the discovery of two typical cultures: one is the culture of the market reputation; the other is the culture of the civilization, defined also in its symbolic and anthropological meaning. These two cultures may date back for centuries, yet it may happen that they never cross each other. These two cultures are two systems co-present but not inevitably communicating because they are bearing two different rationales. The first one is oriented to the market, and bad markets laws often corrupt it, the second one is the exaltation of the *savoir vivre* and of a local civilization. Using two labels we will call them the culture for the quality and the culture for the "savoir vivre".

The culture for quality. According to this kind of cultural goal the producers are obsessed by the search for the top quality. They invest in reputation improving the quality of the techniques, the equipments, and the functional and the esthetic form of the product. The district's product becomes a good with collective reputation, and the allocation of collective property rights, usually in the form of the right to the protected designation of origin, creates new solidarity. A single actor is in a position to ruining the reputation of the whole community of producers and new mechanisms of enforcement impose strict standards of quality and controls. On the demand side the consumption becomes more and more selective: the quantity yields the way to the quality.

The road to the market has produced a new cultural model of the reputation, based on the maniac search for highest quality. Heading for the quality costs very much in terms of investments in technology for impeccable production processes. Without forgetting to cultivate *élite* clients, and to develop a style of selective communication, based often more on the absence, than on attending to shows and events. It is the strategy of the absence as a factor of distinction.

The culture of the "savoir vivre". The model of the intangible culture, or "art of life", influences deeply on the management style of many modern producers, giving place to a model of a communitarian and relational market promotion of the district's products. In this model the cultural image of the product is directed to a consumer-connoisseur. While the anonymous consumer is mostly attracted by a good relationship quality/price, the connoisseur wants to widen its information to cultural elements, local contexts and traditions. The connoisseur plays the role of a leader and generates word-of-mouth advertising and imitation effects. This model gives maximum attention to the world of the local culture. As an example, the community of the cultural district of the Langhe, as we will see, is fully involved in the recovery and the valorization of its castles, its folklore and cultural capital. International artists and writers are at work as well, like Sol Lewitt painting frescos in a chapel in the middle of a vineyard near La Morra. This model builds a cultural community of interests around the producer, its products, the historic context in which they are born, and the cultural events that the same producer organizes.

Beyond the care for quality, the producer cares the consumer and his/her satisfaction. The attention to the consumer is the greatest, because most of the culture based goods are experience goods. Such a relation firm-consumer is the more relevant, the more the consumers themselves are an elite, easy to identify and to know, sometimes personally. This way the consumers feel to be part of a community and share a local culture.

Both models of culture, based the former on the quality identification of the product and the latter on the identification of the consumer with a local culture, are characterized by the strategic presence of the intellectual, intangible components. Both models have to turn to a system of property rights.

6.1.2 *Collective Property Rights: the Protected Designation of Origin (PDO)*

An important class of property rights is that protecting the intellectual property, like trademarks, geographical indication and designation of origin. These are distinctive signs that identify specific products. The enforcement of a sign of distinction carries out many economic effects: reduces the probability of unauthorized copy and gives raise to individual efficient incentives to create and produce. Signaling the general characteristics of the product the intellectual property rights reduce the asymmetric information pertaining to the agents involved in an exchange of hidden quality goods (search goods, experience goods, and credence goods, Nelson, 1970).

When the products are well identified, the *griffe* and the trademark are the usual way to protect against burglary and unfair competition. These property rights are *individual* in their essence, however in many cases the signature, even if preferred to the brand name, is a weak signal for the market because the reputation of the product seems to be more due to the place than to the single producer.

Collective property rights are rules governing individuals' actions. Individuals accept a supra-individual authority and the right become a public good. So the main reason for establishing a right to act collectively is similar to that explaining the origin of government: there is an increase in efficiency limiting the absolute individual freedom and the free riding behavior when this may be done in a consensual setting (Coleman, 1993).

Two types of intellectual property rights may thus be distinguished: individual and firm based or collective and community based, but only that are communitarian or collective will be essential for the startup of a potential cultural district.

Among the collective property rights protecting the culture-based goods, the *Protected Designation of origin (PDO)* (in Italian *denominazione di origine controllata, DOC*; in French *appellation d'origine contrôlée, AOC*) is a distinctive sign, usually the name of a village or locality, assigned to a product whose characteristics are deeply rooted in the local social and cultural environment or territory. The entitlement to use the word "PDO" offers a means of protecting the traditional practices of a specific well-defined region. The PDO gives rise to an exclusive right, namely to a monopolistic power which is shared among the producers located in one protected area. The *geographical indication* is also a distinctive sign, usually the name of a village or locality, assigned to a product whose characteristics are deeply rooted within a local technique or to a particular production process performed in an area. This second type of protection is less intense and strict. It is usually used in reference to the field of unfair competition.

In contrast to the two rights just mentioned is the trademark, a feature typical of the market for reputation (Landes and Posner, 1987). While the trademark or the brand name protects a single producer, the *designation of origin* protects all the registered producers in a given place. The former is a form of individual protection; the latter is a form of collective and community protection.⁶

The assignment of property rights yields a set of interesting and ambiguous concerns:

- as they create a monopolistic privilege through product differentiation, they allow an increase of prices and of yields, which contributes to a substantial accumulation of capital, beyond that allowed by the premium price (Shapiro, 1983);
- legal protection generates incentives so that producers invest in reputation and high quality of products that have been selected through a long cultural tradition;
- legal protection and economic incentives lead to better control of the productive and distributive process, with a remarkable increase in the quality of the products.

⁶ A third private way to enhance and disclose the reputation and quality of a product is to indicate the number and the value of prizes a product has been awarded. This policy was common among wine producers before the introduction of property rights.

Improving the content and availability of information through labels of origin may bear some drawbacks, due to the rule establishing the rights. We will outline three potential failures.

The first one is the risk of *free riding behavior*. The PDO has the function of signaling the quality corresponding at least to the minimum standards required by the rules of registration. Sharing this signal and keeping constant the reputation implies a significative investment in information. Through an initial investment, whose cost will be recovered in the course of repeated sales and that could therefore generate at the beginning lower profits than that the same producers could have obtained from the sales of products of low quality, it is possible to obtain a separating equilibrium that allows to distinguish on the market the producers based on the quality and to give correct signaling to the consumers. If, vice versa, the costs of registration to the collective right are low, it could be convenient also to the producer of low quality to join, because in the short run he will get higher profits than those obtained from the high quality producers, supporting production costs more elevates. In this case we get a pooling equilibrium. In this sense it will not be possible to use the collective label to distinguish the various types of firms.

The second failure is concerned with *moral hazard* (Akerlof, 1970). In the course of the time it may happen if periodic inspections on the quality were not carefully carried out. In this case the initial members of the club could decide to attach the collective sign to products of lower quality in the confidence that the consumers will not appreciate the difference. This strategy will produce a lowering of the average quality of the product until more experience and information will reverse the consumers' behavior.

The third drawback is the *exit option*. If the individual quality increases because the producer loves the culture for quality or if the average quality of the district decrease due to the free riders behavior, there could be a trend toward the exit from the collective sign because the use of it would signal a quality that is, over a significant threshold, lower than that of the better quality firms. Thus the process of exit may develop a new reverse move toward the individual trademark. This process has been already found in the wine cultural districts of the Langhe and Chianti and could take place also in other fields, like the artistic ceramics, where two categories of craftsmen are possibly distinguished: the artists and the low quality serial producers.

6.1.3 A model behavior for establishing collective property rights

The case of the artistic ceramics may be chosen to show the strategies of individual producers with regard to the adoption of a protected designation of origin right. The generalization to others cultural districts is straightforward.

Some years ago a formal institution⁷ established a collective property right for the Italian pottery cultural districts. The requirements of the law, namely the registration and the concerned rules, have been set out in 1996, but up today nobody has joined the protected designation of origin right. The reasons of such "failure" are of economic and social character. The costs of adhesion for the producers are particularly high, given the stringency of the criteria adopted to characterize the pottery products subject to protection.

Let us assume that in the market for pottery are present two kinds of craftsmen:

1. the craftsmen *art oriented*, producing high quality commodities.
2. the craftsmen *mass market oriented*, producing standardized and low quality/prices commodities.

Each craftsman has two strategies: "to join" and "not to join" to a protected designation of origin right. The payoffs of the players in a static not cooperative game, with simultaneous strategies and perfect information, is represented by the following payoff matrix:

| | | |
|---|----------------|--------------------|
| <i>To join or not to join a protected designation of origin</i> | C_A | |
| | <i>To join</i> | <i>Not to join</i> |

⁷ La Legge 188/90 sulla "Tutela della ceramica artistica e tradizionale e della ceramica italiana di qualità" e i successivi provvedimenti attuativi (D.M. 15/07/1996 n. 506 e D.M. 26/6/1997)

| | | | |
|-------|--------------------|---------------------|--------|
| C_M | <i>To join</i> | $\pi + \varepsilon$ | π |
| | | $\pi - \varepsilon$ | $-\pi$ |
| | <i>Not to join</i> | ε | 0 |
| | | π | 0 |

C_A stands for the agent representative of the art-oriented craftsmen and with C_M the agent representative of the market-oriented or low quality craftsmen. The latter does not respect the minimums quality standards required to the members registered to the PDO right.

If player C_A decides to join to the PDO right, its/her payoffs are: π if player C_M does not join or $(\pi - \varepsilon)$ if C_M joins. With its/her presence C_M generates therefore a negative externality $(-\varepsilon)$, since he/her decreases the average quality level that the consumer attach to the collective label. This externality is the reflex of a sharpless image of the territory, an image made both by souvenirs sellers and works of art. In some sense this mix is a negative factor for both kinds of craftsmen.

If, vice versa, player C_A decides not to join, his/her payoffs are: 0 if C_M does not join (this level can be interpreted as the normalized level of profit in a market without PDO right); and $(-\pi)$ that is a negative profit, if C_M joins, taking control therefore of the benefits that the PDO can provide.

As far as C_M is concerned, if he/her decides to join, his/her payoffs are $\pi + \varepsilon$ if C_A joins (in this case, C_M enjoys at zero personal costs the positive externality (ε) generated from the adhesion of C_A to the label - C_A is supposed to increase the average quality attached to the label; and π if C_A does not join.

If C_M decides not to join, he/her gets a payoff 0 , if C_A does not join; and ε , if C_A joins, since, even if C_M cannot bear the label, he/her may benefit the externalities stemming from the great renown of a district like Caltagirone.

Considering the payoffs matrix, the representative player C_M has one dominant strategy: *to join* to the right. In fact, for whichever choice of C_A , C_M will esteem convenient to join, that is $\pi + \varepsilon$ and π are respectively greater of ε and 0 . If there are not high entry/registering costs, the market-oriented and low quality craftsmen will without doubt join.

The representative player C_A will have a dominant strategy if and only if ε is small ($\pi - \varepsilon, \pi$ are always preferred to $-\pi, 0$). To be more accurate, we mean by small ε that $\pi - \varepsilon > -\pi$ that is $\varepsilon < 2\pi$. If ε is larger, C_A does not have one dominant strategy.

In the latter case, the principle of the iterated dominance is adopted: given that C_M plays its dominant strategy *-to join-*, C_A will respectively play *to join*, if ε is small (therefore the Nash equilibrium will be *to join - to join*) and *not to join*, if ε is large (therefore the Nash equilibrium will be *to join-not to join*).

About the pareto-efficiency of the Nash equilibrium, we found that:

- if $\varepsilon < 2\pi$, the Nash equilibrium *to join-to join* is also pareto-efficient;
- if $\varepsilon > 2\pi$, the Nash equilibrium *to join-not to join* is not pareto-efficient, with respect to the strategy *not to join-to join*.

Repeating the game infinitely and using the *Folk Theorem* (Friedman, 1971), we will have.

- for $\varepsilon < 2\pi$, the efficient equilibrium *to join-to join* will be repeated infinitely;

- for $\varepsilon > 2\pi$, repeating the strategy *not to join-to join* may evolve in a Nash equilibrium: it depends on the discount rate, that is on the rate of impatience of C_M .

The condition under which the infinite repetition of the strategy pareto-efficient may evolve in a Nash equilibrium in a repeated game is:

$$\pi < |\varepsilon - \pi| \cdot \sum_{t=1}^{\infty} \left(\frac{1}{1 + \rho_M} \right)^t$$

where π is the increase in the actual benefit (equal to $\pi + \varepsilon - \varepsilon = \pi$) following the C_M choice of the *to join* strategy; $|\varepsilon - \pi|$ is the loss in each of the future runs⁸, in the case in which the current C_M strategy be to join and C_A replays *not to join* in all the future runs; ρ_M is the discount rate applied from C_M to the future benefits.

The condition can be rewritten: $\rho_M < |\varepsilon - \pi| / \pi$. Therefore, the representative player C_M will play *not to join*, if and only if its discount rate ρ_M is smaller of the value threshold $(|\varepsilon - \pi| / \pi)$; in this case, the craftsman market-oriented C_M is patient and attaches greater future importance to the benefits deriving from *not to join*, rather than to the current benefit deriving from *to join*.

A craftsman profit-oriented, that has a rather wide temporal horizon and applies to the future benefits a rather low discount rate, that is under the threshold previously indicated, could think convenient *not to join* to collective property right also because, once that the local PDO will have reach a good reputation, thanks to the art-oriented craftsmen, that will be able to generate of positive externalities also for those who, as an example, operates in the territory but on segments of market more low quality (typical are the serials souvenirs for tourists, that are also attracted from the collective local good reputation). A refused adhesion to the collective right today can involve greater benefits in future.

If, instead, the craftsman profit-oriented has a short run horizon, he will prefer *to join* to the collective PDO right and to maximize their own profits, without caring of the produced negative externality, in terms of lowered medium quality and of lower future benefits for all.

In conclusion, the adoption of protected designation of origin rights is justified if it is structured so as to generate separating equilibrium when the generated externality exceeds determined dimensions. The separating equilibrium, however, would allow in the long run the co-existence of both kinds of craftsmen.

6.2 The Institutional Cultural District in Progress: *the Case of the Langhe, Piedmont.*

To outline the main features of the cultural and productive system of the Langhe-Piedmont, and the economic and cultural impact of the allocation of property rights on enological production, industrial aspects shall be analyzed separately from the cultural ones.

The basic economic effect of the assignment of property rights marked the very outset of a massive process of capital accumulation. Table 2 illustrates the extensive redistribution of income that followed the assignment and enforcement of property rights on Barolo wine as of 1992 (DOC Act, February 10, 1992, n.164).⁹ Comparing the differentials between the GDP deflator and wine prices in

⁸ $\pi - \varepsilon$ is negative because we are discussion the case $\varepsilon > 2\pi$, thus the future loss is $|\varepsilon - \pi|$.

⁹ The legislation on wine property rights dates back in Italy since 1924, but the DOC Act n. 194, 1992 introduces for the first time a complete and enforceable protection.

the two periods before and after 1992, it can be noted that the price lead of the Barolo DOC over the general national price index was three times greater in the years 1993-98 (125.54% greater) than in the years 1985-92 (41.0%). The same impressive lead holds for Barbaresco, suggesting that during the phase of more effective enforcement of the property rights the economic environment has been at least as good as the natural one (good weather conditions).

| Wine DOC | % Growth Rate of GDP Deflator 1986-1992 | % Growth Rate of Wine Prices : 1986-1992 | Differentials : 1985-1992 | % Growth Rate of GDP Deflator 1993-1998 | % Growth Rate of Wine Prices : 1993-1998 | Differentials: 1993-1998 |
|-------------------|---|--|---------------------------|---|--|--------------------------|
| Barolo | 45.22 | 86.2 | 41.0 | 20.66 | 146.2 | 125.54 |
| Barbaresco | 45.22 | 147.29 | 102.07 | 20.66 | 187.6 | 166.94 |

Source: working-out from P. Borrione, 2000

| Barolo | | Mean yearly production (hectoliters) |
|--------------------|--|--------------------------------------|
| <i>before 1993</i> | | 47741 |
| <i>after 1993</i> | | 44388 |
| Barbaresco | | Mean yearly production |
| <i>before 1993</i> | | 16159 |
| <i>after 1993</i> | | 14560 |

Source: working-out from P. Borrione, 2000

Enological production of DOC wines (See Table 3) did not show relevant changes before or after the assignment of property rights in 1992. In other words, the redistributive effect favoring local capital accumulation was only partially based on monopolistic shrinking of the current quantity supplied.

As regards the *industrial complex*, many features are worth noting:

- i) High levels of technological innovation and dense dissemination of it among small-sized enterprises. The old traditional productive processes have been updated, incorporating scientific progress in chemistry and enology. Equipment and machinery for enological production have been developed.
- ii) A larger and qualified labor market may take advantage of professional and managerial training in the field of enology, advertising, marketing, and communication. New training centers have been set up.
- iii) The construction of public infrastructures, such as commercial centers, wine cellars, and common commercial structures for export.
- iv) The development of export practices and the international circulation of local products.

As regards the *cultural complex*, innovations, which have recently come to prominence, include:

- i) The valorization of fairs and festivals linked to cultural local products and traditions. Local wines and other products, such as regional cuisine, foods, cheese and truffles, are presented to the general public in their cultural framework; these incorporate the pleasure of the table and the psychology of modern taste and the enrichment of the quality of life through local customs.
- ii) The recovery of the historical patrimony of castles, country manors and houses.
- iii) The use of the landscape as an economic resource.
- iv) The cultural dissemination of eco-museums, cultural centers and wine cellars.
- v) The creation of cultural parks and tourist cultural itineraries through the literary and artistic local tradition.
- vi) The development of the tourist-hotel industry.

vii) The institution of an international university of taste in order to rediscover regional cooking and ancient crafts.

The rate of birth of the main cultural events organized or established before and after the promulgation of the DOC Act in 1992 shows a significant trend. An average of about one new cultural event was established per year in the 24 municipalities of the Langhe from 1980 to 1992. From 1992 to 2000, the density of the events permanently created increased to four/five units per year. This means that about 50 new permanent public performances have been established within eight years. So in spring, 2001, for example more than 100 shows, spectacles, castles, and public performances are available to the cultural visitors of the area.

Analogous arguments may be made for the institutional cultural districts that are grounded on the economic exploitation of artistic and popular traditions, such as in the fields of music, arts & craft (glasses, perfumes, soaps) the figurative and plastic arts, and designed goods.

7. Other Models of Quasi-Cultural-Districts

With the expression Quasi-Cultural-Districts are designated two varieties of cultural clusters, namely in the fields of the cultural heritage and of the cultural revitalization of the cities. Their nature is similar to that of the cultural districts both in terms of the expected positive externalities and the expected benefits from the creation of a protected designation of origin right.

7.1 Museum Cultural Districts and Local Institutions

The most explicit form of cultural district is that constructed around museum networks or within an artistic community. The museum districts are usually localized in the historical urban downtown. Their density in itself creates systemic effects, which attract visitors and tourists. The capacity to reach a critical mass is the essential condition for their success.

A museum cultural district is the product of a public policy. As in the case of the institutional cultural district, the basic ingredients for a museum cultural district are the presence of a localized culture embedded in the museums' human capital and collections, and an *institutional* start-up represented by a municipal decision to establish a museum district. Its design is the result of accurate city planning oriented towards economic valorization through an innovative network of the historical and artistic patrimony of the town.

The impact of the museum district is multifold. Its realization increases the demand for hotel services. Tourist expenses extend to several crafts and design-based activities and other cultural services. The increase in the amount of visitors attracted if a critical mass is reached, in addition to the advantages of integrated tours and the availability of collateral services, are the ultimate outcome pursued by urban development planners. This goal is not only the outcome of direct effects on production of cultural goods and services, but is also considered essential for the international image of the town: it is a simple investment in reputation.

Nevertheless, the rationale of museum cultural districts is quite different from the other forms of cultural districts. Italy can be cited as an example: in Italy there are 3,500 museums; of these approximately 3,400 are extremely small, endowed with insufficient resources. They are more a memory of the past than a projection into the present of classic works of art and acquired knowledge. To correct the current dispersion of competencies, the proposal to create museum cultural districts acquires the perspective of public policy.

The challenge for the museum districts is not merely to gather up single cultural units, but to create a new greater and systematic unit, representing much more than the simple sum of the original ones.

7.1.1 *The Museum District as a Search for Optimal Size*

In the background of the museum districts there is, without a doubt, the drive to search for optimal size. In this sense, each museum should aspire to endogenous growth or to joining other

cultural structures in order to reach efficiency in terms of productive capacity, quality of services and level of reputation. Beyond the rationale of the *subsidiarity principle*, which plays a great role in hierarchical or public structures, the creation of positive externalities by means of an adequate size and the attainment of economies of scale and variety is crucial to the qualitative growth of the museum.

The main positive externalities involved are the following:

1. *Network externalities*. The high density of museums in limited spaces offers potential visitors a great number of cultural connections to other museums, disciplines, atmospheres, and historical ages. The cultural connections are goods that, in economic terms, give utility to anyone who uses them, be he or she a visitor, a curator or an art historian.

2. *Consumption externalities*. Taken in a strict sense the consumption externalities refer to the increase of utility that a consumer acquires as a consequence of the increase of connections. One ancillary consequence is the bandwagon effect, that is, the measure in which the demand of a good increases by virtue of the fact that others consume the same good. When the district succeeds in reaching a critical mass, positive tendencies are created that encourage a flow of customers which exceeds the norm.

3. *Externalities of time*. Some museum events, such as temporary exhibitions, are formidable magnets for residents and non-residents. People optimize the use of their time by visiting the smaller collection, following a visit paid to the permanent collection.

4. *Economies of scale and scope*. Reaching an adequate dimension allows attainment of economies of scale and variety. The provision of commercial services may be improved. The staff and the collections can be managed with more positive results, as can the realization of a systematic calendar of the events and expositions. Many activities in three strategic areas - scientific and cultural, managerial and technical assistance - can be centralized with obvious advantages in terms of facilitating decisions and saving on costs of employment redundancies.

7.2 Metropolitan Cultural Districts and Local Institutions

Metropolitan cultural districts are breathing new life into communities by using arts and cultural services to attract people, to contrast economic industrial decline, and to design a new image of the city. A metropolitan cultural district is a spatial agglomeration of buildings dedicated to performing arts, museums, and organizations which produce culture and related goods, services and facilities.

Cultural districts are most common in American cities, where there are more than 90 planned or existing cultural development schemes - from Boston (established in 1988) to Charlotte, North Carolina (established in 1993), from Dallas (established in 1983) to Pittsburgh (established in 1982) -, and in Great Britain, where the idea of cultural district or cultural quarter has been under consideration in theory and practice since Glasgow's seminal experience in the 80's (Frost Kumpf, 1998; Newman and Smith, 2000; Zan, 1999; Brooks and Kushner, 2001).

The distinction between *City of Art* and *City of Culture* reveals the meaning of this form of district as opposed to the museum cultural district. A *City of Art* is a place incredibly rich in historical monuments, tradition, palaces, churches and museums, and, like Venice or Florence, is more oriented towards the museum district, and inclined to show itself to both tourists and residents. A *City of Culture*, on the contrary, does not possess an abundance of historic and artistic resources, but is able to generate culture. Culture is produced by artists, composers and creative people, who all need a place to work, a space in which to distribute their works of art and support for marketing and communication. In this sense, the metropolitan cultural district could be the best and most efficient means of producing tangible and intangible culture through a visible agglomeration of artistic capital and organizations.

The standard metropolitan cultural district is centered on two preliminary institutional requirements:

- the existence of an area whose property rights structure is not too dispersed - for instance an area free of industrial buildings or free and previously unzoned land;

- an Agency, a Trust or a business community charged with developing the project by facilitating the planning procedures and supporting the management and the marketing of cultural activities. The types of suitable administering bodies may range from private business entrepreneurs, as in the case of Charlotte, Tennessee, to city planners, in the case of the Dallas Art District, and to Trusts that can own and operate theatres and visual art exhibits, such as the Pittsburgh Cultural Trust (Frost Kumpf, 1998; Brooks and Kushner, 2001).

Cultural city planning usually includes

- an initial range of artistic and cultural activities: museums, library, theatres, art galleries, concert halls, studios and art shops;
- a secondary range of activities based on the production of culture: art and crafts workshops, movie studios, recording music studios, local TV stations, commercial television stations;
- a third range of activities which are the necessary complement for attracting visitors and tourists: restaurants, cafeterias, gift shops and the like.

The urban nature of this kind of cultural district is strengthened by the expected increase in the rent of the land following the establishment of the localized cultural activities. In many cases in fact the local public expenditure for financing infrastructure or private or public initiatives is more than compensated by the subsequent increase in the property tax revenue. In this sense revitalizing through cultural activities an urban area is cost effective to the local finance.

The real choice depends on where the focus of public action is placed. In principle, the metropolitan cultural district can satisfy two distinct demands: the external demand of tourists and foreign buyers or the internal demand of residents for improving the quality of life. In the first case, the district must develop its industrial vocation in the audiovisual sector, in TV and video production, and in the creation and production of design-based goods. In the second case, the district looks after the residents' preferences to provide services of theater, museum, cafeterias, restaurants, and art galleries.

8. Policy Issues

8.1 A structural diversity

As with all social phenomena, any definition of cultural district remains in some sense imperfect, due to its progressive evolution along with the continuous transformations of the local society and its economic structure. This does not mean that definitions and differences among the cultural districts are only grounded on contemporary conditions; in this paper, these serve mainly as an example. Conceptual differences in the suggested typology are strongly rooted in the way in which institutions and collective rules governing the cultural districts are established. While the Industrial Cultural District shows a historic-evolutionist pattern *à la Nozick*, the other stylized models originate from a policy design, that may be concerned with property rights, cultural public policies, and policies of urban revitalization. Table 4 shows the main distinctive characteristics of the four models of districts, and the commodities respectively supplied.

| Character-istics | Industrial Cultural District | Institutional Cultural District | Museum Cultural District | Metropolitan Cultural District |
|-----------------------------|---|--|--------------------------------|---|
| Goods and Services Supplied | <i>Design-based Goods Audiovisuals Movie Pictures Apparel and fashion</i> | <i>Culture of the "Savoir vivre" Wine and Food Shows and Festivals</i> | <i>Networks of Museums</i> | <i>Theaters Cinemas Art galleries Restaurants</i> |
| The Model | Institutions: Historic-Evolutionist Pattern | Institutions: Property Rights Assignment | Institutions: Public Policy | Institutions: Urban Policy |

The four types of cultural district analyzed above are, obviously, complementary and compatible. Taken together they show the potential for new paths of economic development and local growth. The differences between the four types are significant. Cultural districts lie at the intersection of three modern revolutions dominated by the intellectual factor: the revolution of *technological knowledge*, that of the production of *information knowledge*, characterized by the outbreak of the global distributive system (the network-internet where knowledge workers distribute ideas, culture, goods and services) and that of the production of *cultural knowledge*, whose expansion transforms lifestyles and possibilities, modifying the time constraint of the consumer.

8.2 A policy design dilemma

A first provisional conclusion of this analysis relies on a *policy design dilemma* concerning the *start-up* of a cultural industrial district. The diffuse entrepreneurial atmosphere that accompanies the evolution of a cultural industrial district does not have an explicit starting point. As stated above, its pattern is historic-evolutionist. Institutional re-engineering is not possible. In terms of public choice, this means that the sequence of the infinite, random, and unforeseeable events leading to the district's critical mass is, in practice, irreproducible. Even our history and fortune are created day by day and we find them embedded in a path-dependent process. The localized social and economic environment cannot be constructed *ex ante*. Because of its complex nature, the re-engineering of the cultural industrial district is a strategy charged with ambiguous results.

What can be done is to influence some of the mechanisms governing the infant cultural district according to rational plans to modify individual economic incentives. This is the case of the institutional cultural districts. To adjust the property rights structure is fundamental to developing efficient behaviors, but it must be supplemented with the idiosyncrasy of the cultural factor. The search for the two conditions is delicate, but necessary for designing successful public policy.

The museum cultural district and the metropolitan cultural district also rest within the political sphere of local public authorities and municipalities. Their start-up and implementation is subject to the risk of failure, but it may be that simply respecting the local cultural endowment can reduce risk.

8.3 Setting community property rights

In recent years, a new convergence can be observed. Let us examine how and when the evolution of the four types of cultural districts shows a proclivity to a convergent structure of community property rights by observing the convergence process according to the type of cultural district.

The *cultural industrial district* develops in such a way as to approach the legal requirements of the cultural institutional district. In fact, the firms of the industrial cultural district are no longer homogeneous. At the outset, many small-sized firms started up, but after years of severe market competition, several districts demonstrate a high degree of industrial concentration. The leading five firms of the district may account for a great amount of the total local production (See Table 5).

| Industrial district | Commodity | Concentration rate % |
|----------------------------|---------------------|-----------------------------|
| Biella | textile | 7 |
| Prato | textile | 10 |
| Olgiatese | textile and apparel | 20 |
| Castel Goffredo | hosiery | 60 |
| Arzignano | tannery | 60 |
| Montebelluna | sport shoes | 60 |
| San Mauro Pascoli | shoes | 60 |
| Teramo | textile | 70 |

| | |
|-----------------------------|-----------|
| Total districts mean | 35 |
|-----------------------------|-----------|

Source: *Censis, Ilsole24ore, June 2000*

High concentration rates raise serious problems for the remaining small-sized firms, which are unable to compete to the best of their ability on international markets, due to the heavy investments in trade promotion and in setting up distributive networks required. Attempts to preserve the district's industrial atmosphere lead inevitably to the creation of common instruments protecting local creativity. Again, as in the case of the institutional cultural district, community or collective property rights, district trademarks and syndicates for commercial and trade promotion should be established to encourage cooperative behaviors and, at the same time, to protect private concerns.

The *Institutional Cultural District* shows such an evolution in phases. The start-up of the district may indeed be linked to the peculiar interactive atmosphere of the localized industrial production. Nonetheless, the local producers are selfish, rational economic agents, jealous of their identity but forced to co-operate to make sure that a community property right is established. However, the main significance of this right is both the protection of the cultural traits of the territory, and the coercive introduction of quality standards necessary in order to improve the average collective quality of the product. After this first phase and depending on the characteristics of the players, a further process of specialization is foreseeable, leading towards a basic destructuring of the community property right. On the one hand there is a process of specialization driven by big brand producers: property rights specialize towards ever-smaller areas and productions sites to be protected (i.e. for the wines there is an evolution from the protected designation of origin, usually a region, to a more restricted area like a castle or a parcel of vineyard). On the other hand the process introduces new collective rights in the form of co-operation among small and medium sized producers: some participate in the collective production and distribution of a new brand of assembled wine, i.e. in the case of the Langhe, "*Quorum*"; others invent a new brand, "*L'insieme*", signaling each producer as a member of the new consortium or cartel and allowing it to sell the product under its own responsibility.

The *Museum Cultural District* is establishing itself as an example of production of a collective mark able to improve the value of a given place. The *QuartierMuseum* of Wien, the *InselMuseum* of Berlin, the *Museums* of the city of Strasbourg, the museums of the *Savoy Collections* in Turin, are examples of untradable cultural systems that valorize collections, human capital and the ability to attract tourists and school students. Without a community based property right some cultural values would not be able to manifest themselves because they are only evident in a unitary view (Medici's Collections in Florence, Borbon's Collections in Naples, etc.). Moreover, the community could lose the benefits emerging from the work of a single agency able to govern, to manage and to sell the image of a non-coordinated cultural reality.

The *Metropolitan Cultural District* is grounded on goods and services analogous to those produced by the Institutional Cultural District. Rational producers of tangible and intangible culture find incentives in establishing a right that increases the quality of the product. Even if the example is not perfectly suitable, the low average quality of a place producing goods and services based on intangible culture can damage the general image of a local ethnic community. Let us think of the Chinatowns or Little Italy of many American metropolises, or of the theater or the art gallery districts. The community based property right serves not only as a guarantee for quality control over the area, but also creates appeal, allowing special agencies to co-ordinate cultural events, calendar, communication and marketing.

To sum up, a convergence appears. A convergence linked to the idiosyncratic character of culture and of the culture-based goods. These signify localized and untradable creativity *à la* Storper. The community property rights then serve as a vehicle for monitoring quality standards, communicating a localized cultural image, increasing competitiveness and rising the rate of creativity of the district.

The four cultural district models seem to converge on the institutional case, more suitable for politico-economic strategies. As a powerful factor of sustainable economic growth, both in developed

and developing countries, the policy for institutional cultural districts is very attractive, but further research is needed to better understand how the districts can be transferred to new receptive local experiences and to assess the long-run drawbacks of monopolistic protection.

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