

# **The New Old Economy: Networks, Institutions, and the Organizational Transformation of American Manufacturing**

**By Josh Whitford**

**Oxford University Press (2005)**

## **Description**

American manufacturing is in obvious crisis: the sector lost three million jobs between 2000 and 2003 as the American trade deficit shot to record highs. Manufacturers have increasingly decentralized productive responsibilities to armies of supplier firms, both domestic and abroad. Many have speculated as to whether or not manufacturing is even feasible in the United States, given the difficulties. Josh Whitford's book shows that discussion of this shift, in the media and in the academic literature, hits on the right issues - globalization, de-industrialization, and the outsourcing of production in marketized and in network relationships - but in an overly polarized way that obscures as much as it enlightens. Drawing on the results of extensive interviews conducted with manufacturers in the American Upper Midwest, Whitford shows that the range of possibilities is more complex and contingent than is usually recognized. Highlighting heretofore unexamined elements of constraint, contradiction and innovation that characterize contemporary network production models, Whitford shakes received understanding in economic and organizational sociology, comparative political economy, and economic geography to reveal ways in which the American economic development apparatus can be adjusted to better meet the challenges of a highly decentralized production regime.

## **Reviews**

*"A new economy is being born from in the old rust-belt economy, and Josh Whitford is a terrific chronicler and analyst of this extraordinary transformation-one so important yet so difficult. Anyone interested in the idea of partnership and collaborative community in industry will find this immensely thought-provoking."*

**-Professor Paul Adler, Marshall School of Business, University of Southern California**

*"Josh Whitford here demonstrates the importance of focussed empirical research in challenging stereotypes. The picture presented here of US Metalworking firms is not that of the familiar stylized facts. That is because it is the result of real, on-the-ground research-but driven also by excellent theoretical analysis and reflection."* **-Professor Colin Crouch, Chair, Institute of Governance and Public Management, Warwick Business School**

*"At the very center of the transformations of contemporary economies is a profound restructuring of the relationships among firms. Josh Whitford's The New Old Economy provides a penetrating analysis of these transformations, showing how new strategies interact with old institutional arrangements to produce novel configurations. It should be read by anyone interested in understanding the dilemmas and dynamics of the American economy."* **-Erik Olin Wright, Vilas Distinguished Professor, Department of Sociology, University of Wisconsin-Madison**

*"If you want to understand the past and future of manufacturing in America, read this book. With detailed research and careful analysis, Josh Whitford gets beyond the politically supercharged debate over 'deindustrialization' and 'outsourcing' to show how the increasingly global and decentralized system of production actually works and what business and political leaders can do about it"* **-Richard Florida, Hirst Professor of Public Policy, George Mason University**

*"Based on rich fieldwork interviews in America's Midwest manufacturing heartland, Josh Whitford develops a novel account of the organizational consequences of outsourcing from large to small firms, which challenges core claims of leading sociological theories of economic coordination."* **-Jonathan Zeitlin, Professor of Sociology, Public Affairs, and History, and Director of the Center on World Affairs and the Global Economy, University of Wisconsin-Madison**

**The New Old Economy: Networks, Institutions, and the Organizational Transformation of American Manufacturing.**

Josh Whitford. New York: Oxford University Press, 2005. 220 pp. \$59.95.

The rules of engagement in the global economy and the fragmentation of mass markets have led many manufacturing companies to close down operations in the U.S. Those that survive have done so by focusing on their core competencies in design, marketing, and assembly, subcontracting the manufacture of components to smaller contractors, many still in the U.S. The emerging production regime in these companies is often viewed as consisting of the diffusion of "high performance work organizations" within firms and of collaborative relationships across firms, especially between the major manufacturers—the original equipment manufacturers, or OEMs—and the multiple tiers of suppliers with whom they contract. Skeptics note that old-fashioned, often hostile, arm's-length contracting between OEMs and suppliers continues to prevail.

In an important new book based on over 100 interviews at more than 50 metal manufacturing firms in the Upper Midwest and filled with interesting and original insights, Josh Whitford examines the nature of interfirm relationships. He finds a very substantial restructuring of American manufacturing and the transfer of production from once vertically integrated manufacturers to a tiered system of smaller suppliers. Most interfirm relationships, however, are neither cooperative and accommodating nor hostile and arm's length. Instead, he finds a range of relationships, in which collaborators hedge against defection by pursuing their own selfish interests, and arm's-length bargaining often yields to accommodation among firms that are forced to rely upon each other.

In part 2, the heart of the book, Whitford develops the metaphor of a "waltz" among the OEMs and the multiple firms that supply them as they explore changes in cost, quality, and technology to achieve incremental innovations and reduce production costs. Waltzing at its best creates collaborative relationships around integrated designs that allow reductions in costs without sacrificing suppliers' margins. Even at their best, however, these relationships remain contingent—for example, on suppliers' ability to keep up with technology—and firms in the network have an incentive to hedge against overreliance on each other. Indeed, Whitford observes that strategic hedging and limits on collaboration are typical of interfirm relationships in manufacturing networks. Most firms, he argues, can be characterized as combining collaboration and arm's-length bargaining within relationships. Bad waltzing involves no-holds-barred bargaining and deceptive practices that undermine trust and restrict the open exchange of information. In its less extreme forms, it involves deviations from ostensibly collaborative strategies—what Whitford terms contradictory collaboration—that can threaten the relationship. Aptly chosen quotes from respondents flesh out these ideas and add new insights. For example, the discussion of what has elsewhere been termed "boundary spanners"—individuals who manage the network

### **Book Reviews**

relationships for the OEM, especially with second- and third-tier suppliers—makes clear the centrality of this role. The most successful appear to be employees of first-tier suppliers who formerly managed procurement for the OEM.

Whitford presents a fresh and original analysis of the nature of domestic supply-chain relationships in the context of the U.S. institutional framework. Unfortunately, the early chapters, which address sociological theory, institutions, and production regimes, are marred by bearing too close a resemblance to the doctoral dissertation from which they are drawn, making for tedious reading at times. Despite this, the book deserves to reach a wide readership, as it offers a richly detailed understanding of the realities of the new logic of organizing production.

#### **Eileen Appelbaum**

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– looking at the authors' retrospectives, combined with the knowledge of our contemporary state-of-the-discipline, one is left realizing that this work has indeed enriched our sociological imaginations, but the institutional structures and departmental cultures within sociology as a discipline, seem rather "unchanged" as we face the same issues of white, patriarchal, heterosexual, capitalist modes of sociological knowledge production and lack of relevance to the *objects* of our studies today. Finally, what would have made this volume even more useful is if it would have, through its history, memoir, and look forward, helped define the possibilities of contemporary sociologies that are radical, progressive, socialist, grounded, humanistic, and how to link departments with lives, with communities, with globalities, to literally *engage* in social change – not publish in journals and then wax on such publications and theoretical musings toward the end of our careers.

To be fair, the editor, as well as series editor, Fasenfest, briefly recognize the limitations – theirs is a labor and pedagogy of hope for sociologists, the discipline of sociology, and the people of the world who continue to struggle and are in *need* of radical social change. This book is must reading as are those contemporary journals that run the race began by *The Insurgent* – *Critical Sociology*, *Societies Without Borders* and *Situations*. This book is a reminder that must be heard, by us, by our students, and translated into real, solid structural change for all. I would suggest adopting such a book for both graduate and undergraduate courses in sociological theory, senior seminars, professional seminars, social movements, political sociology, critical theory and even courses in critical methodology and human rights. A better world is possible, but not at the expense of inattention to structural transformation of American society and American sociology – then we can move from enrichment to change, for all.

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**The New Old Economy: Networks, Institutions, and the Organizational Transformation of American Manufacturing**

By Josh Whitford

Oxford University Press. 2005. 220 pages. \$55 cloth.

**Reviewer:** Nina Bandelj, *University of California, Irvine*

The object of analysis in Josh Whitford's excellent book is the restructuring of American manufacturing, which has experienced a devastating crisis in the late 20<sup>th</sup> century. Whitford provides a nuanced account of the complexities and contingencies of the organizational transformation of the quintessential old economy industry, metal manufacturing, in the quintessential old economy region, the American upper Midwest.

How do deindustrialization, globalization and outsourcing influence organizational practices of an old economy? Whitford offers an answer based on the evidence gathered from interviews with more than 100 people at more than 50 metal manufacturing firms (including Original Equipment Manufacturers and their suppliers) from Illinois and Wisconsin, conducted from 2000 through 2002. He shows that the efforts of firms to follow the new production paradigm (i.e., flexible production model premised on cooperative relationships between and within firms that are expected to yield superior performance) are partial at best. While firms put in good faith efforts to collaborate, these efforts are full of systematic contradiction and hedging behavior. Moreover, Whitford argues that even in the American Liberal Market Economy, institutions can be designed to foster the normatively desirable collaborative production practices.

Whitford takes off from three different theoretical explanations: the social embeddedness/ networks approach, the Varieties of Capitalism perspective, and the neopragmatist Learning by Monitoring. According to Whitford, none of these theories capture the complexity of the practices that we are witnessing in the restructuring manufacturing sector because, ultimately, they assume that relationships between firms will "fall into stable and dichotomous equilibrium configurations, with a world of hostile arm's length contracting on one side and the collaborative sharing of information between weakly bounded firms on the other." (156) In contrast, Whitford finds that OEM-supplier relationships are systematically and stably "intermediate between the arm's length and collaborative poles," (31) and result in what he terms "contradictory collaboration." This is because restructuring brings with it several sources of fundamental uncertainties, including those driven by market and technological changes, uneven supplier competencies, staff turnover, information-transfer difficulties and intrafirm factions.

Whitford should be commended for the realistic portrayal of the complexity of collaborative practices, and I suspect that other researchers will readily add the notion of "contradictory collaboration" to their toolkit of concepts useful for understanding practical experiences of firms. But this is also because the book's key finding, that actual practices of firms are neither only collaborative nor simply arm's length, is not very surprising. In fact, the reader may expect a more systematic assessment of which firms are more or less "intermediary" and the identification of conditions that enable firms to "waltz" (76) through collaborative relationships better than others.

Moreover, economic sociologists might question the assumption that producer-supplier collaboration always enhances firm performance. Researchers have documented the downsides of embeddedness and argued that a right combination of embedded and arm's length ties will be optimal for performance (e.g., Uzzi 1997). With the data available, Whitford cannot address directly how collaboration (or lack thereof, or

different types of it) influences organizational performance of transforming manufacturing firms, but this is surely a worthwhile effort that should receive more attention in network studies more generally.

The book's title derives from the claim that "what we have is very much a *new old* economy, in the sense that the new organizational forms in manufacturing are being built *with* the pieces, practices and in the institutional context of the organizations that came before, not *on* them." (111, emphases in original) There is room for Whitford to better theorize this recombination of the old and new practices, as such insights would certainly be applicable to a very broad literature on institutional change.

Finally, one of the bold moves on Whitford's part is to tackle issues of economic policy, which makes this book valuable not only for academics but also for practitioners and policy makers. Whitford forcefully argues for the importance of policies and institutions that support the high-collaboration decentralized manufacturing model. His key illustration is the Wisconsin Manufacturers' Development Consortium, a regional association of seven large OEMs and dozens of component suppliers that receives state and private funds to facilitate supplier training and underwrite the credible commitment to collaboration. A neoinstitutionalist analyst would probably see in this illustration more than support for collaborative practices but efforts on behalf of professional associations and state actors to drive the adoption of a particular kind of legitimate organizational model and thereby structure the organizational field. This may also help answer the question as to why we even see substantial collaborative efforts in the American liberal market economy thought to be ill-suited for such organizational models, which is the one that Whitford side steps.

These kinds of questions show how stimulating a book *The Old New Economy* is. Not only economic and organizational sociologists but also political economists, economic geographers, business scholars, policy makers and practitioners will find that it significantly advances our understanding of some of the key issues confronted by the contemporary American economy.

## References

- Uzzi, Brian. 1997. "Social Structure and Competition in Interfirm Networks: The Paradox of Embeddedness." *Administrative Science Quarterly* 42(1):35-67.

**The New Old Economy: Networks Institutions and the Organizational Transformation of American Manufacturing**, J. Whitford. Oxford University Press Inc., NY, USA (2005). 228 pp., £35.00 Hardback, ISBN: 978-0-19-928601-0

Although it is clear that globalization takes different guises according to local economic contexts, it is also clear that deindustrialization processes, deunionization, outsourcing, and organizational structure deverticalization of large firms occur on a global scale. This would not be a problem if small manufacturing firms absorbed the outsourced processes within the same regions. However, a substantial share of the outsourced production is shifted to low-wage countries, increasing the barriers to sustaining high-wage American manufacturing.

Notwithstanding the difficulties posed by three decades of deindustrialization and employment loss, Josh Whitford argues in this book that this is not a natural or insurmountable process, but rather political and highly differentiated, defined by choices made by firms, states and workers in different institutional and historical contexts.

The book describes American manufacturing after three decades of deindustrialization. The empirical data were collected between 2000 and 2002, in the middle of the US economic recession. It can be argued that these data may reflect too much volatility and exacerbated OEM–supplier relations, but they definitely capture the fundamental transformation that the sector was undergoing in response to this new historical context.

Whitford acknowledges three main bodies of literatures for understanding and providing useful elements for economic and policy making under this new reality: social embeddedness and networks, institutionalism and ‘varieties of capitalism’, and neopragmatist ‘learning by monitoring’.

However, he takes a critical view of the contradictory middle ground between trust building and defection in networks; between building labour, business and training systems with interlocking complementarities (as in coordinated market economies) and historical institutional factors that do not allow one to correct for low levels of interfirm trust. He argues that weak business associations and systems of corporate governance are not supportive of long-term information sharing for interfirm collaboration.

OEMs promote innovation processes to drive down costs, leaving margins untouched. Suppliers are willing to share information, but may hedge their collaboration if their bargaining power is at stake. In most cases, suppliers suffer by the OEMs’ incompetence and abuse of trust. All these problematic conditions define the middle ground.

The big question for Whitford is how and why decentralization and the reorganization of production have driven interfirm relations toward ‘contradictory collaborations’? At first glance, the cause seems the OEMs’ short-term interests in the OEM–supplier relationship, but more important are the ‘organizational screw-ups’ rooted in their interactions.

The first section of the book describes the organizational transformation of American manufacturing and estab-

lishes the core theoretical argument, that the economic coordination literature usually dismisses the systemic contradictions and the hedging behaviour by firms when searching for collaborative network forms of organizations.

Based on 102 qualitative and semistructured interviews, section two argues that there are systemic constraints on the willingness of OEMs and suppliers to collaborate. However, when states organize nonmarket institutions at the subnational or regional level in order to reduce behavioural uncertainties and develop credible commitments, interfirm collaboration is possible. A fundamental implication is that the transformation of American manufacturing seeks ‘new nonmarket collaborative relationship’ built upon organizational and business practices rooted in ‘old liberal market cultural practices’, giving rise to the main title of the book, ‘the new old economy’. The main mechanisms driving the relationships toward contradictory collaborations, according to Whitford, are: cost reduction, margin reductions, dangerous information sharing, diminishing the bargaining power of suppliers, abuse of trust by OEMs, shifting unremunerated risks to suppliers, and misguided use of online auctions.

Section three argues that the fragmentation of the American federal structure allows experimentation at the local and regional economic level; giving space for collaborationists to push forward the structural changes for institutions based on market economies but supported by coordination transactions mechanisms designed specifically for either local, state, or regional levels. Whitford characterizes the labour–business–state relations as public–private institutional building; furthermore, the industrial relations literature would seem to support his claim that, partial collaboration is highly feasible at the federal state level, even facing national and global changes in market, social, and regulatory environments.

To support his claim, he describes the Wisconsin Manufacturing Development Consortium, which is an OEM consortium working with the state’s manufacturing modernization service to upgrade the capabilities of suppliers and foster OEM–supplier collaboration. The argument is developed by introducing the Wisconsin Regional Training Partnership, which involves a union–management cooperation initiative with more than 100 unionized firms, the aim of which is to link new forms of work organization with new technological developments in collaboration with the state Manufacturing Extension Partnership.

The book contributes to the literature in three main ways: it opens up the ‘black box’ of constraints on social network formation; it explains why and how liberal and coordinated market economy institutions coexists; and it reveals that real learning by monitoring is only possible if the bargaining power of suppliers is not at stake.

The normative assumption underlying all this is that network formation and collaboration is a desirable model for American manufacturing, but the policy implication is that institutional building should focus on tackling the constraints on the formation of networks and collaborations, such as market, technological, competence, and most importantly, organizational uncertainties.

The book should capture the attention of researchers in academia and elsewhere, engaging them in critical theoretical debates and provides them with empirical evidence. For any postgraduate student interested in science, technology and innovation studies, this book is a useful point of reference as it grounds theoretical discussions in real-life organizational behaviour and change. Although it provides some of the foundations work for policy makers, it is not a 'policy design' type of book.

Whilst the author could not be expected to please all audiences, at least one refinement would be to explain in more detail why the analysis and normative approach focused on social networks and not on other forms of industrial organizations such as regional clusters, the 'triple

helix' relationship, innovation systems, or even business-to-business relations (B2B), which also presumably require collaborative relations and which are not immune to conflicts and contradictions between their various components.

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Tristan S. Bridges

*The New Old Economy*

Josh Whitford, Oxford: Oxford University Press, 2005, £30.00, 220pp (Production) Regime Change?

Whilst much ink has been spilt documenting the decline of manufacturing in Western economies, its antecedents and consequences, comparatively less attention has been given to exploring the changes in manufacturing organizations that remain, and in particular the trend that sees the transfer of much productive activity from large manufacturers to smaller suppliers. An investigation of these changes, and their implications, in the context of US manufacturing, and in particular in the American Upper Midwest, provides the departure point for this study.

The book is organized into three sections. Section one essentially presents an extended literature review, which seeks to historically contextualise the decline of US manufacturing and draws attention to its uneven nature. Whitford suggests that the changing contours of deindustrialisation are a consequence of changes in the economic structure of manufacturing, which are characterised as being based around a 'new production paradigm' and consequent 'decentring of production'. Crucially this involves the outsourcing of manufacturing and means that production is unlikely to remain 'under one roof'. The implications of this for firms in terms of managing relations, complexity and quality are stark, and their exploration forms the central contribution of this text.

Section two presents the findings of an empirical case study of metal manufacturing in the American Upper Midwest. This focus is justified by the claim that the region accounts for one in four durable manufacturing jobs in the US. The study draws upon 102 semi-structured interviews with personnel from large manufacturers, their suppliers, and a variety of end users. The intention of the research is to explore how the trend toward decentralization is enacted on a day-to-day basis. The result is a complex and rich account, which gives ample voice to research participants with the author skilfully drawing a narrative account through the use of extracts from interviews and interpretation. The importance of inter-firm relations is highlighted, together with the potential for collaborative gains to be made albeit at the cost of closer interdependence. Despite the somewhat optimistic picture that emerges of the potential for mutual gains and reciprocity from joint endeavour, the voice of pragmatism is resonant, as economic and psychological costs of uncertainty appear to pervade, with the interview text giving voice to the often-resultant *intra*-firm conflict, which invariably seeps into *inter*-firm relations.

Section three, drawing on the evidence of potential failures of collaboration outlined in the empirical material, raises the question of the degree to which collaboration might possibly be stimulated by nonmarket interventions. Drawing upon the experience of a collaborative group of seven manufacturers firms that formed a manufacturers' consortium, Whitford argues that space exists for the development of co-ordinating, nonmarket entities, that function to overcome the uncertainty explored in section 2.

Despite the clear link between the various sections of the book and the way in which they appear to neatly coalesce into clear policy prescriptions, the issues of employee training and levels of skill were notably absent. The discussion is suggestive of the need for intra-firm flexibility and quality yet the issue of training and development is largely ignored. This also has a clear relevance in terms of state level policy. Within a UK context for example, authors such as Finegold and Soskice (1998) draw attention to the relationship between low-valued added production and low investment in skills development through the concept of a 'low skills equilibrium', where firms face significant disincentives to invest in training and development. An analysis of the pattern of skill formation that emerges in the context of new production regimes might have usefully informed the discussion.

In summary, this is a book that will be of interest to economic sociologists who are interested in understanding the development of post-deindustrialised manufacturing. The most important contribution that this text makes is arguably in the use of interview technique and the data that this reveals in attempting to comprehend the complexity involved in the day-to-day maintenance of intra-firm collaboration in the context of growing technological uncertainty. For the author the clear outcome of this is a policy prescription, based at the federal level, of increasing nonmarket stimulus for collaboration through the infrastructural support of cooperation. The degree to which the political will exists for an agenda based on this type of regime change in the United States is certainly a topical question, and one worthy of consideration.

## Reference

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Keele University

Matthew J. Brannan

*The Making of Social Theory: Order, Reason, and Desire*

Anthony Thomson, Oxford University Press, Don Mills, Ontario, 2006  
ix+478pp.

A frequently voiced complaint by those charged with teaching undergraduates in the humanities and social sciences is that their students lack both a historical

Turning one's dissertation into a significant and highly readable book is no easy endeavour and in this the author is completely successful. But as time takes its toll on both history and ideas, theoretical frameworks often get frozen, and it thus becomes difficult if not hazardous to contextualize them in a rapidly changing present. The fact is that a lot has happened to the economy and class structure in India after the late 1970s, as the author surely knows. Both domestic and international markets have considerably 'disciplined' capital as it has labour, governments and institutions. Optimistically, economic reform in the present context could come to mean less yet better (rather than just more) state intervention. This reviewer awaits the author's next book on state–capital–class dynamics in post-reform India and the narrative of how the state eventually finds the key to unlock itself.

DEBASHISH BHATTACHERJEE

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*The New Old Economy: Networks, Institutions and the Organizational Transformation of American Manufacturing* by Josh Whitford. Oxford, Oxford University Press, 2005, vii + 220 pp., ISBN 0 19 928601 9, £30.00

This book evaluates the shifting nature of value chain relationships in mature industrial sectors and draws on the 'varieties of capital' framework to argue for US economic policy that develops co-ordinating institutions in order to support emergent collaboration between firms. These arguments are developed and substantiated through a well-grounded theoretical discussion and detailed empirical evidence.

The implications and emergent outcomes of outsourcing are explored through over 100 interviews at more than 50 metal manufacturing firms in the American Upper Midwest. Many of the findings resonate with research that has evaluated changes elsewhere, particularly in the automotive supply chain in the UK and more widely throughout Western Europe. Increased global competition and the fragmentation of mass markets led those manufacturers that survived to retrench to their core capabilities, creating a 'post-outsourcing manufacturing economy' which is more global, less urban and less unionized. This is, argues Whitford, qualitatively distinctive as a 'new old economy' in which most of what is important to manufacturers no longer takes place within the firm or under their control. Thus, the quality of relations between firms is both much more important and more complex. It is these relationships that are the focus of Whitford's research. He shows that the results of these transformational structural forces are mediated through firms' actions and thus lie somewhere between the collaborative reciprocity of network advocates and the arm's length atomism of neoclassical economists. The central concern in the book is to identify policy implications that may be developed from the recognition of this more complex and less bifurcated reality. At the heart of this is an attempt to show how existing American economic policy might be modified to support manufacturers' attempts at collaboration in ways that eschew the dominant liberal market assumptions of the USA.

The empirical part of the book shows, through the reporting of interview data, the complex interactions that constitute the 'network' relations between firms. The data demonstrate how original equipment manufacturers (OEMs) and suppliers simultaneously define (and then continue to redefine) both the product and their relationship in what Whitford terms variously a 'dialogic back-and-forth' and a 'structured-yet-creative waltz' that intermingles competition, conflict and co-operation. He shows

how the decentralization of production has created space for innovation and gains for small and medium-sized component suppliers but that in turn they have had to forego certain exit options. Equally the parties routinely hedge their relationships at multiple levels and occasionally engage in ‘no-holds-barred tactics’ that create uncertainty and undermine efforts on the part of both sides to construct collaborative relationships. It is particularly interesting to note the negative impact of conflictual and centralized *intrafirm* relationships within and between departments within the OEM on supplier relationships. These conflicts over the emphasis different departments will place on, say, price versus delivery reliability versus quality of components, show the challenge of aligning incentives that help cement long-term collaboration even within an individual organization.

The analysis and exposition is based around a blending of three related literatures that address aspects of collaborative networks — social networks and embeddedness, varieties of capitalism, and a ‘learning by monitoring’ approach. These are seen as sharing three fundamental points of agreement: the emergence of a new network-based production paradigm; that there are mechanisms (variously, social ties, formal and informal institutions or learning routines) that firms can use to achieve successful collaboration; and, that as original equipment manufacturers decentralize production, this will result in a dichotomy of, on the one hand, arm’s length contracting and on the other deep collaboration between partner firms. For Whitford, this third expectation is problematic in both conceptual and empirical terms because it fails to leave space for the emergence of a ‘stable middle ground’. He argues from the empirical findings that ‘the modal case of the OEM-supplier relationship is both contradictory and systematically intermediate between the arm’s-length and collaborative poles’ (p. 31).

This should not be dismissed as ‘noise’ for from these findings a better recognition of the challenges in building new institutions in support of the network production paradigm can be established. The challenge of organizational change is, in part, one of institutional change. The relative ability of individual firms to sustain collaborative relationships is influenced by the historical and institutional context of their operation. This puts the issues of institutional lock-in and path dependency at the centre of any initiatives seeking to promote or support collaborative developments. Whitford follows Granovetter and adopts an ‘embedded actors’ perspective that sees economic institutions as constructed by individuals whose action is both facilitated and constrained by the structure and resources of their context rather than as emerging automatically in response to economic needs. Thus, it is possible to escape path dependency, and the challenge for policy in support of economic development is to find ways in which collaborative efforts that have emerged despite the prevailing institutional conditions of the USA can be further supported.

Whitford sees opportunities on the basis of the existing — if limited and often latent — relational structures that have emerged in the Upper Midwest metal manufacturing sector. He identifies that there are ‘important collaborationist factions that could be mobilized to ensure the effective functioning of “coordination-oriented” policies that would require the building of new institutions’ (p. 126). He also recognizes the fragmentation of US federal economic development policy as creating opportunities for local and regional experimentation. State-level institutions are those most likely to offer the best chance for change that promotes the ‘collaborationist’ agenda. The final section of the book provides a specific example of how a consortium of OEM manufacturers in Wisconsin, working alongside the state’s manufacturing modernization service, provided training for suppliers and encouraged greater collaboration in a way

that may provide an example of public–private institution building. He draws some parallels with the emergent workforce intermediaries in the USA that are helping to forge local solutions to labour market problems. In a somewhat similar fashion, the Wisconsin Manufacturers' Development Consortium has been working towards building capacity for the non-market co-ordination of strategic interactions and improved collaboration between OEMs and their suppliers.

This is a thoughtful and thought-provoking book that draws together theory and data to make a clearly argued case for the construction of institutions that can support and promote local and emergent collaboration among mature industry actors operating in a liberal market economy. Readers involved in similar discussions with policy makers will welcome this book. As Whitford argues, the core limitations on co-ordination-oriented policy making are far more *political* than they are historical or institutional. His work provides a valuable resource for those engaged in these very debates. Let us hope some government economists read it.

RICK DELBRIDGE

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*Working in the Service Sector — A Tale from Different Worlds* edited by Gerhard Bosch and Steffen Lehndorff. Routledge, Abingdon, 2005, xviii + 357 pp., ISBN 0 415 28322 1, £85.00

This book stems from a European Community-funded project on new forms of work in the service economy. Opening with a critique of deterministic convergence theories, the book sets out to provide answers to three questions concerning service work in Europe: (i) Must we accept greater social inequality in order to extend the service sector or is the so-called high road development path a real option? (ii) Does an increase in service activities necessarily go hand-in-hand with the destandardization or even polarization of working conditions? (iii) Are service societies and service work converging towards a single, uniform model? (p. 3). The book comprises 14 chapters from contributors across Europe and is organized into three parts. The first part draws on macro-level data to explore differences in levels of tertiarization and variation in the relationship between service sector work, non-standard employment and female labour-market participation between different European countries. The second part presents comparative case studies on five different sectors: homecare, nursing, software engineering, retail and banking. The third part draws together material presented earlier in the book to present some common integrating themes, particularly with regard to the importance of institutional context in determining the way in which service work is performed.

One measure on which this book could well be judged is whether it successfully addresses the three research questions outlined above. In the event, it becomes clear that, as a result of the heterogeneity that exists within the European context, answers to these questions are far from straightforward or uniform, there being no automatic association between service sector work and outcomes such as non-standard employment and income inequality. Indeed, what the book does very successfully is highlight the huge differences in labour-market institutions, welfare systems, product market regulation, family policy and so on, which influence the nature and extent of service sector employment in different European countries. This is a welcome addition to a

economic and sociological arguments more thoroughly vetted than the political ones. More attention could be given to modeling both how and why governments intervened to support the respective patterns of development in Korea and Taiwan, and how U.S. foreign and commercial policy served to at least abet, if not trigger, the transitions to export-led growth. The work of Gary Gereffi, as well as work I have done on the disk-drive industry with David McKendrick and Rick Doner, will raise the question of whether so-called producer driven networks might not play a similar role elsewhere, and whether they were more prominent in Korea and Taiwan than is allowed; electronics are important in this regard, and dominated in Singapore. The argument also sits on an interesting but tough counterfactual: in the absence of the retail revolution in the U.S., do Feenstra and Hamilton think that these economies would not have entered the world market at all, or only less successfully?

Nonetheless, *Emergent Economies* is a wide-ranging and important book, a major accomplishment. It will have to be dealt with by all economists, political scientists, and sociologists working on Asia's rapid growth.

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*The New Old Economy: Networks, Institutions, and the Organizational Transformation of American Manufacturing*, by **Josh Whitford**. New York, NY: Oxford University Press, 2006. 220 pp. \$55.00 cloth. ISBN: 0199286019.

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It is commonly assumed that the decline of U.S. manufacturing employment is terminal and inevitable—with the possible exception of a small core of operations too inherently complex and/or technologically sophisticated to be done in low-wage countries. Josh Whitford argues, against the current, that the potentially-viable portion of the U.S. manufacturing base is widely underestimated, and that local and regional policy interventions can make a difference in preserving it.

The story begins with the reorganization of large, vertically integrated manufacturing corporations, which have externalized large chunks of the manufacturing chain and reinvented themselves as final purchasers and as-

semblers of parts and subcomponents in a networked production system. In a world of heightened, often global, competitive pressures, firms can more flexibly and efficiently purchase inputs than make everything themselves. In a networked production system, final assemblers (Whitford calls them original equipment manufacturers, OEMs) are no longer locked-in to particular processes or supply chains that they own, but can change suppliers to obtain cheaper and/or better inputs when designs, manufacturing processes, and/or competitive advantages change. This new flexibility and efficiency mean that activities that were once organized hierarchically *within* firms now must be coordinated *across* firms.

Global sourcing, demand fluctuations, and rapid product cycles make being a supplier much more precarious and risky than it used to be, as well. The conventional view of OEM-supplier relations is that they come in two flavors: collaborative, long-term relationships or arm's length market transactions. In the American context, the story goes, if OEMs maintain collaborative relations at all, it is only with suppliers who are too important to fail, because they produce uniquely critical or complex components that cannot be treated as commodities. Everyone else competes on price against low-wage global manufacturers—which is why the vast majority of the American supplier base is doomed.

Whitford argues that this story is wrong, based on more than 100 interviews conducted between 2000 and 2002 with managers at OEM and supplier firms in the American upper Midwest. Most OEM-supplier relationships, he finds, are not at the collaborative or market poles; rather, Whitford finds a large middle group of suppliers who must do a significant amount of collaborating (on design, for example), but also must compete on price. The modal pattern, he says, is neither collaboration nor market but rather a complex, "multidimensional" relationship that mixes elements of both collaboration *and* market. This is the portion of the supply base, Whitford argues, whose exit to low-wage countries is not preordained, who could stay in the U.S. by being better at collaboratively achieving incremental cost reductions than arms-length suppliers competing on price.

His analysis turns on two related observations. First, cost reductions can be achieved in different ways. Moving production to low-wage areas is one way; seeking productivity improvements is another. The latter approach *requires* open collaboration, a process of “joint inquiry,” involving OEM and supplier. Second, the question of whether an OEM treats a part as a commodity or as the object of collaborative inquiry is not determined in advance by the nature of the product but rather rests on the quality of the OEM-supplier relationship. In the right kind of relationship, open and collaborative inquiry can lead to a continuous process of incremental cost reduction—through customization, process improvements, and design changes—even in the manufacture of apparently mundane parts. The advantages of this kind of process, Whitford contends, can—and often do—outweigh the potential costs of switching to new suppliers who promise low costs but whose record of quality and on-time delivery is, at the outset, unknown.

In the OEM-supplier relationships Whitford examines, the collaborative aspects are partial and uncertain. Collaborationist factions within OEM firms are often overruled by other factions who simply demand a scour-the-earth-for-the-lowest-price approach. This creates uncertainty and undermines the trust required for successful collaboration. But Whitford argues that, even in the United States, which has no overarching institutional support for collaborative cross-firm relationships, local and regional institutions can make a positive difference. He suggests that the Wisconsin Manufacturers’ Development Consortium shows the way: the WMDC creates trust by signaling OEM commitment to a local supplier base, helps coordinate activities of suppliers and OEMs, provides training that can help better position suppliers (and OEMs) to collaborate, and serves as an “external support network” that strengthens the position of collaborationist factions within OEM firms. As a result, his supplier respondents report that the WMDC played a positive role in helping them stay afloat. Whitford concludes that the fortunes of American manufacturing are thus quite amenable to local and regional policy interventions that facilitate the right sort of interfirm collaborative networks.

*The New Old Economy* is an interesting book because it cuts against the grain of conventional wisdom about the future of American manufacturing, and because it attempts to provide concrete, practical policy suggestions for helping more of the existing domestic supplier base to survive. It is sure to stimulate important debates about the viability and potential future of high-wage manufacturing in the United States—a question with significant ramifications for a wide range of outcomes including stratification patterns, occupational change, and population shifts.

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*The Hard Sell: An Ethnographic Study of the Direct Selling Industry*, by **John Bone**. Aldershot, UK: Ashgate Publishing, 2006. 206 pp. \$99.95 cloth. ISBN: 0754646092.

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*The Hard Sell* is based on the ethnographic study of the UK direct selling industry, with the special focus on the selling practices, the discrepancy between public image and private reality, internal culture and organizational structures of two home improvement companies, Mega Home Improvements and Big Products. John Bone’s book is not the first study of direct selling organizations. Its predecessor, Biggart’s *Charismatic Capitalism, Direct Selling Organizations in America* (1989), focused on the network direct selling organizations (NDSO), which deal mainly with cheap consumables. The reviewed book, by contrast, centers on Value Direct Selling Organizations (VDSO), which sell large, one-off purchases involving a considerable financial commitment. The main distinction between these two forms of contemporary direct selling business is a result of different demands of their particular product markets, which, in turn, lead to the development of distinctive cultures, forms and sizes of organizations. All direct selling companies tend to conduct business in the customer’s home, therefore they need to rely on social networks to widen their potential client base. The demands of the NDSOs’ product market lead this type of organization to appeal to women by presenting themselves as female friendly, more informal, less competitive and

style of subjective expression. Further, it is claimed that play is *consumatory* rather than *instrumental*. Play and work are considered rival forms of transformation, while ritual and *communitas* are conformative modes of orientation. This claim leads Henricks to a table in which “contestive” activities (work) are contrasted with “integrative” ones (ritual) and play too is put into the same contestive column and contrasted with integrative ones. These binarisms do not, in my opinion, work very well. Play is both transformative (it transforms the mundane into the sublime) and conformative (it has to conform to a very strict rule structure). Play is certainly “consumatory.” It is “self-contained and allows people to experience a sense of completion within the space-time frame of the activity itself” (p. 189). Yet, undeniably, it is also instrumental insofar as it uses various objects in a systematic and calculated way.

The logic of these categorizations and oppositions fail to make sense to me—though, perhaps, it will make sense to others. In any case, Henricks has produced an engaging meditation on play as expressive culture with excellent discussion of the work of many scholars. The last chapter contains a very parsimonious summary of Henricks’s main thesis and can be used with profit by all interested in the study of culture. The challenge posed by Huizinga, to take play seriously, has been given an appropriate response.

*The New Old Economy: Networks, Institutions, and the Organizational Transformation of American Manufacturing.* By Josh Whitford. New York: Oxford University Press, 2005.

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*The New Old Economy* begins with an intriguing statistic: more manufacturing jobs were lost in the economic recession of 2001–4 than in the downturns of 1979–82 or 1982–92. Yet, the political and academic lamentation over the recent losses was far more muted than either of the two previous downturns. The reason, Josh Whitford explains, is that the economic and social climate in which that manufacturing happens in America has shifted. Major companies no longer lay off massive numbers of workers because, for the most part, major companies no longer employ massive numbers of workers. Some jobs, of course, have gone overseas. But the flight of those jobs is best thought of as part of a larger and more significant development: the industrial model on which American manufacturing has been based since World War II has been overturned. What has replaced it is a new model in which smaller, leaner, specialized companies take center stage. Their travails have not—as of yet—captured the public’s attention. The book asserts that we need to start paying attention again.

Whitford is hardly the first person to point out the broader structural

shift in American manufacturing. But his are not the networks envisioned either in Piore and Sabel's (*The Second Industrial Divider* [Basic Books, 1984]) notion of flexible specialization or in Porter's ("Location, Competition and Economic Development," *Economic Development Quarterly* 14 [2000]: 15–34) idea of clusters. These are far-flung supplier-customer networks that cross the boundaries of traditional "industries" as easily as they do national borders. Consistent with the arguments of Bennett Harrison (*Lean and Mean* [Basic Books, 1994]), Gary Herrigel (*Industrial Constructions* [Cambridge University Press, 2000]), and Wolfgang Streeck ("On the Institutional Conditions for Diversified Quality Production," in *Beyond Keynesianism*, edited by W. Streeck and E. Matzner [Edward Elgar, 1991]), major companies remain central to these networks by structuring and coordinating supplier networks. Whitford's contribution is in illuminating how their complexity has increased over time. Where in the 1980s and 1990s, attention was focused on reforming production (through devices such as just-in-time and lean manufacturing methods), the focus now is on how to push as much of the design and innovation processes down into the chain as far as possible. Suppliers, in other words, are now expected to bring design capabilities to the table when bidding on work. Manufacturers that can play at this game survive. The rest are relegated to the ranks of the commoditized and await their fate.

But the key is not simply encouraging suppliers to bulk up on design capabilities; it is in how to achieve collaboration between customers and suppliers over product design. The book is at its best when it is unpacking exactly how those sorts of collaborations actually work in practice. Whitford has a keen eye for illuminating quotes and ethnographic detail that bring to life mundane topics like the "incremental target costing" that plays a central role in coordinating customer-supplier relationships. Fundamentally, this is a problem of balancing design advances while simultaneously driving down costs. That sounds on first glance like a lose-lose proposition for suppliers who must both take on greater risk and expense under conditions of restricted profit margins. But Whitford shows that it does happen, and indeed he goes further to show how suppliers can succeed under otherwise difficult circumstances.

Without completely dismissing network theorists' approach to embedded trust or the variety of capitalism's ideas on how national institutions facilitate long-term commitments, Whitford explains this surprising outcome by turning to the neopragmatist arguments of Sabel (see "Learning by Monitoring," in *Rethinking the Development Experience*, edited by L. Rodwin and D. Schon [Brookings Institution, 1994]; J. MacDuffie, S. Helper, and C. Sabel, "Pragmatic Collaborations: Advancing Knowledge While Controlling Opportuism" [*Industrial and Corporate Change* 9 (2000): 442–88], which dictate that long-term relationships emerge out of the coordinating rules that original equipment manufacturers (OEMs) impose within their supply chains and how these produce a sustainable mixture of hedging . Together, these rules result in a phenomenon Whit-

ford christens a “waltz’ of continuous mutual adjustment, in which suppliers and OEMs intermingle both competitive and collaborative interactions.” The waltz involves both cooperation (marked by the sharing of proprietary information) and hedging against opportunism (marked by the withholding of the same). So the “ideal” of fully collaborative cooperation is not achieved. But, this “incomplete” cooperation is nevertheless stable, and it forms the reality of manufacturing today. Whitford is telling us that it is okay to waltz at arms’ length; it might look a little stiff, but dancing does not necessarily require a full embrace.

That point is well taken, but the forcefulness with which it is argued generates some confusion when the book turns to policy implications. In the end, Whitford *does* want closer relationships. What is standing in the way is not a lack of ability or willingness on the part of suppliers to dance; it is the inability and unwillingness of OEM customers to make long(-ish) term commitments. Indeed, even when OEMs do ostensibly make such commitments, changes in personnel, business strategy, or market conditions can lead them to break whatever commitments they might have made. Without the reasonable expectation of such commitments, suppliers will not invest in the engineers, designers, and specialized equipment that participating in the waltz requires.

Put differently, if American OEMs only knew how to dance better, our manufacturing woes could be eliminated. It is not entirely clear theoretically why one *needs* the threat of opportunism to generate sustainable arms’-length ties. But Whitford’s inclination and training is (appropriately) to go empirical in order to find a way to overcome the barriers to closer collaboration as he has identified them. Drawing on a case study of the Center on Wisconsin Strategy, he argues that the local and regional government can and should play a role and that role is to be the chaperone that gently guides the awkward dancers to select a partner waiting along the side wall.

It is an attractive image. But in the end, the case for the locality of these processes is a little bit strained. While there is ample evidence that locally proximate networks are vital in creative industries and at the early stages of an industry’s life cycle, the mature industries with which the book is concerned are far more spread out. It is sufficient to note simply that state-level intervention is needed because of the utter lack of attention federal-level policy makers have paid to these issues. (Otherwise, one wonders why suppliers would not simply bypass backward, unreliable, or overly controlling OEMs in their home localities for better ones elsewhere when, in fact, they do.) Moreover, the conceptualization of “networks” that he has in mind is remarkably dyadic, while what evidence there is on, say, Japanese production networks suggests that cross-fertilization of ideas and capabilities *among* suppliers is vital to the kinds of upgrading Whitford is interested in achieving.

Nonetheless, Whitford does a great service by explaining in intricate detail how American manufacturing has changed in the last 15 years, and

his findings do provide intriguing implications for policy. If nothing else, simply going well beyond empty discussions of off-shoring and the “knowledge economy” to examine the concrete nature of relationships between suppliers and customers is worth the price of admission. The argument is all the more important because in doing so, it tackles many of the less glamorous—but ultimately more vexing and more important—questions concerning American economic competitiveness. While it is in vogue to highlight the brave new worlds of electronics, software, pharmaceuticals, and biotechnology, Whitford insists that we remain a country with a significant manufacturing base. This base has gone through radical changes to become more flexible and more innovative. Yet concerns for its viability persist. Addressing those concerns requires a new vocabulary, and that means delving into the fine detail of how the social interaction of actors in the market unfolds. Whitford’s efforts toward developing such a vocabulary—while in some ways frustratingly circumspect—are nevertheless considered, timely, and important.

*Contemporary Organization Theory*. Edited by Campbell Jones and Rolland Munro. Malden, Mass.: Blackwell Publishing, 2005. Pp. 308.

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The editors’ introduction to *Contemporary Organization Theory* starts with challenging readers to examine some of the complexities unfolded in the book—such as the pervasive effects of language, culture, and science: “Questions also arise over what all this organization is for. Who benefits when community is eschewed for markets, when institutions are rendered into bureaucracies, and when sociability is altered in favor of friendship? . . . Or, are our ideas of organization incapable of being emancipated from the impetuous calls of efficiency and subordination? What place is there today for ‘ultimate values’ like dignity and happiness?” (p. 1). These questions lead to the declared aim of the monograph—advancing thought while drawing attention to what the editors refer to as the quality of writing that is going on today in organization and theory.

The collection focuses on the work of 18 theorists and aims to describe the distinctness in each one of them. These theorists were selected as making a significant contribution to organization theory in the past 20 years. The editors’ basic assumptions are that new theories are always a threat to the community from which they emerge; thus, there is no need to look for structural coherence or unity of theories. Rather, the advantages in paying attention to these theories lies in the introduction of fresh concepts that open thinking and action into different directions. The Western tendency is perceived as focusing on “seeing” matters such as organization as things-in-themselves and so obviating the perspective of “organizing.”

**Book:** Whitford, Josh, 2005: *The New Old Economy: Networks, Institutions, and the Organizational Transformation of American Manufacturing*. Oxford: Oxford University Press.

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Josh Whitford's *The New Old Economy* explores the nature and growth of collaborative relationships between "original equipment manufacturers" (OEMs) of durable goods (e.g., automobiles and transportation equipment, machine tools, appliances) and their component suppliers in the American Upper Midwest. The book makes three invaluable contributions to economic sociology and organization studies: first, it treats "contradictory collaboration" as an increasingly common – and in all likelihood coherent – alternative to either arm's length or embedded buyer-supplier relationships; second, it traces the growth of contradictory collaboration not only to the institutional characteristics of the so-called liberal market economy but to the organizational features of the OEMs themselves; and, finally, it offers policymakers, businesspeople, and trade unionists who hope to catalyze a more productive approach to collaboration practical policy advice.

Whitford departs from the devastating crisis of American durable goods production in the late twentieth century. Over the last quarter of a century the United States economy has lost more than 6 million manufacturing jobs, and Midwestern states like Michigan, Illinois, Indiana, and Wisconsin have been particularly hard hit. While original equipment manufacturers like Ford, Caterpillar, and General Electric have embraced the gospel of "lean and mean" in an effort to forestall the crisis, and have therefore decentralized (or "outsourced") production to an army of component suppliers, they have encountered a host of problems in doing so including skill and reliability deficits on the part of the very suppliers to whom they've turned for help. OEMs are the principal sources of productive knowledge and resources, however, and their suppliers therefore find themselves in a double bind. On the one hand, their ability to attract and retain business from the OEMs depends upon their ability to overcome their skill and reliability deficits. On the other hand, their ability to overcome their skill and reliability deficits depends upon their ability to attract and retain the business of OEMs.

What is to be done? Whitford addressed the question by carrying out more than 100 interviews with OEMs and their component suppliers in Illinois and Wisconsin in 2002 and 2003 and responds by way of a running dialogue with

the two leading approaches to the question: the Varieties of Capitalism approach pioneered by Peter Hall and David Soskice and the Learning by Monitoring approach associated with Charles Sabel and his collaborators. While Hall and Soskice portray decentralized production in industries marked by "incremental innovation" as incompatible with the incentives provided by the liberal market economy, and therefore anticipate the ongoing decline of durable manufacturing in the US, Sabel treats trust and supplier competence as incremental products of collaborative relationships, and therefore anticipates more salutary consequences.

Neither Hall and Soskice nor Sabel is able to account for the complexity of decentralized durable manufacturing in the Upper Midwest, however, and Whitford is therefore forced to condition – if by no means condemn – their conclusions. After all, Hall and Soskice are unable to make sense of the myriad examples of buyer-supplier collaboration revealed by Whitford's many interviews. And Sabel and his colleagues are unable to explain the persistence of hedging, deception, and guile within what are by almost any metric collaborative – and at times longstanding – relationships. In fact, Whitford finds "that the modal case of the OEM-supplier relationship is both contradictory and systematically intermediate between the arm's length and collaborative poles" (p. 31) and thereby introduces a new concept, contradictory collaboration, into the industry studies lexicon.

What are the principal characteristics of contradictory collaboration? On the one hand, OEMs help their suppliers meet their performance standards (e.g., cost, quality, and delivery) by communicating openly about the production process. Suppliers open their doors (and books) to OEM consultants and purchasing agents, and OEMs open their doors to supplier engineers in what Whitford memorably labels a "waltz" of "mutual adjustment." On the other hand, OEMs and in particular their suppliers take precautions (i.e., hedge) in light of the potential for mistrust, miscommunication, and opportunism on the part of their interlocutors. They "muddy the waters" (p. 103) with misleading or even deceptive cost information. They withhold cost savings at time 1 in order to meet new cost targets at time  $t + 1$ . And they at times forego "offers of concrete assistance from their customers for fear of compromising information" (p. 104).

The point is not simply that collaboration is contradictory but that the contradictions are costly. They not only under-

cut the benefits of decentralized production in the short run but threaten to turn the “virtuous circle” described by Sabel into a “vicious circle” in the long run. “Faced with bad waltzing and organizational uncertainty,” argues Whitford, “suppliers have good reason for caution in the sharing of process information and of investing in new product development on the promise of business down the line. Yet this gives OEMs greater reason to treat particular subcomponents as commodities and emboldens marketeer factions within OEMs who believe that the best way to lower costs is to jump from underbidding supplier to underbidding supplier to take advantage of excess capacity in global markets” (p. 119). The likely consequences include lower supplier margins, limited investment in fixed and human capital, deteriorating buyer-supplier relationships, and the ongoing evaporation of high wage manufacturing in the Upper Midwest.

What accounts for the incomplete nature of decentralized durable goods production in the United States? While the contradictions Whitford has identified are at least in part the product of institutions and incentives found in all liberal market economies (e.g., antitrust regulations that inhibit coordination, labor laws that decentralize or disable collective bargaining, a litigious approach to dispute resolution, etc.), and therefore add credibility to Hall and Soskice’s account, they are no less attributable to the organizational design of the OEMs themselves. After all, OEMs are not only plagued by the divisions and dysfunctions found in all multidivisional enterprises, including the at times incompatible goals of their purchasing and manufacturing divisions, but are deliberately designed to forestall – rather than foster – the growth of personal relationships between purchasing agents and suppliers that could admittedly encourage collaboration but could no less easily promote malfeasance. Purchasing agents are rewarded for short run cost savings regardless of their long term impact, and the rewards include promotions that inhibit the growth of enduring relationships that might otherwise facilitate the emergence of less contradictory forms of collaboration.

In short, Whitford treats interorganizational conflict as a function of intraorganizational structure and thereby brings key insights from classical organizational sociology to bear on an important process – contradictory collaboration – left unexamined by the new economic sociology. While Whitford’s theoretical synthesis is long overdue, and is most certainly not to be minimized, his practical contributions are no less important. After all, Whitford concludes the

book by documenting the growth of local and regional partnerships designed to foster coordinated activity in the otherwise liberal American market economy. According to Whitford, the Wisconsin Manufacturers’ Development Consortium (WMDC) constitutes a prototypical example. By drawing seven large OEMs and dozens of component suppliers together with the aid of private funds and state-level industrial extension resources, he argues, the WMDC not only facilitates supplier training but underwrites the sorts of credible commitment to collaboration necessary to foster more enduring forms of learning by monitoring.

The point is not that regional partnerships are a cure-all for what ails American durable manufacturing. On the contrary, they are a small and politically embattled counterweight to the often perverse incentives engendered by the liberal market economy. But they have nonetheless received a triply important fillip from Whitford’s research. First, Whitford has worked directly with the WMDC – and related institutions – to document and maximize their efficacy (p. 190, footnote 103) and his book will only further their efforts. Second, the WMDC serves as a model for regional programs elsewhere in the US (p. 146) and thereby disseminates policy recommendations developed in part through Whitford’s research. And, finally, Whitford’s book draws attention to (and legitimates) the WMDC’s efforts and thereby encourages further and more successful replication down the road.

# Institutional Change and the Social Sources of American Economic Empire: Beyond Stylised Facts

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The three volumes commented on here present some of the very best political economy and economic sociology scholarship on change within the US economy, as well as US-led changes in the international political economy. This review article seeks to identify the key contributions made by these works and how they improve our understanding of institutional change within the US economy. At a time when international relations and political science is populated by critiques of US empire, this article submits that understanding the 'economic taproot' of US power is essential in exposing its enduring character and weaknesses.

Gourevitch, P. A. and Shinn, J. J. (2005) *Political Power and Corporate Control: The New Global Politics of Corporate Governance*. Princeton NJ: Princeton University Press.

Sinclair, T. J. (2005) *The New Masters of Capital: American Bond Rating Agencies and the Politics of Creditworthiness*. Ithaca NY: Cornell University Press.

Whitford, J. (2005) *The New Old Economy: Networks, Institutions, and the Organizational Transformation of American Manufacturing*. Oxford: Oxford University Press.

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The US 'Empire' looms over us all. Certainly one could be forgiven for having this impression when reading recent international relations scholarship. Discussions of how the Bush administration has abandoned international institutions and pursued a posture of aggressive unilateralism have dominated since 9/11. For many scholars there has been a dramatic shift in foreign policy that has been augmented by neo-conservative forces within the US (Cox, 2003), of which the invasion of Iraq, the withdrawal from various international treaties, the abandonment of trade multilateralism and the propagation of ideas of a standard of civilisation all undermine the US's international legitimacy (Reus-Smit, 2004). Some scholars have welcomed the change in US foreign policy towards a more imperial character by arguing that a civilising mission, similar to the previous British imperial period, is one way to enhance world stability and economic development (Ferguson, 2003). Other scholars have reflected on the US's incapacity to maintain an empire due to its incoherence in producing a clear message on what it wants (Katzenstein, 2005; Mann, 2003). In addition to ideational muddling, the costs of empire are thought to be one reason why it may be unsustainable, leading to an 'Empire Lite' that will hurt both the international realm and US domestic society (Ignatieff, 2003). Still, as commented by Michael Cox in this issue, the most important aspect of US empire is that the US has the

capacity to 'set the principal rules for those who live within the *imperium* and punish and reward in equal measure those who either disobey or play by these rules' (Cox, 2007, p. 5).

The aim for this review essay is to learn more about institutional change within the US economy, and what such lessons may suggest for the US's capacity to set the rules of the game for the world economy. One of the significant blind spots in much of the current literature is how changes in the US's behaviour in the international political economy may relate to changes at home, in a rerun of the false distinction between 'high' and 'low' politics. Of the arguments we do hear in the literature, the following views are common: (1) US government debt is now unsustainable, and the Japanese and Chinese governments may soon have the US over a barrel as they are the biggest investors in Treasury and other US federal agencies' bonds; (2) US capitalism is increasingly obsessed with short-term financial gains and, consequently, corporate scandals, typified by WorldCom and others; and (3) sharp increases in income inequality are creating perhaps irreparable social cleavages in the US (on these points, see, for example, Harvey, 2005, pp. 16–9, p. 157, p. 190). These are all sensible arguments. But the reply from students of US economy and society may be: (1) the Chinese and Japanese threat is minimal considering that the US's *key* role in the world economy is fulfilling the function not of international 'lender of the last resort' (Kindleberger, 1973), but of international 'consumer of the last resort', especially for Chinese exports; (2) US capital has much more intensive shareholder protection regulation than other states (Gourevitch and Shinn, 2005, reviewed below), and draws its capital from a much broader social base than is typically assumed (Seabrooke, 2006a); and (3) while there is substantial income inequality in the US, we must acknowledge that most Americans view this as socially legitimate (Glyn, 2006, p. 177), and even a driving force in the economy.

If the common themes that link US empire to change in the domestic economy can be so easily batted away, then we may require a better understanding of how changes in the US economy bear relation to changes in the international political economy. In this light, and as also noted by Michael Cox's contribution to this issue, we may learn from Susan Strange's (1986; 1987; 1988) insights during the 1980s on how the US was able to extend its hegemony in the world economy through 'structural power', despite its apparently crumbling domestic economic system.

For Strange, the US created an empire based on finance that allowed it to establish the global rules of the game. In contrast to doomsayers of the time, who perceived US hegemony and material power to be in relative decline (Gilpin, 1987; Keohane, 1984), Strange argued that hegemony was being extended and strengthened by changing the preferences of other states and market actors in ways that favoured US interests. Within the US at the time there were problems of 'surplus capacity' in production, record levels of state and personal indebtedness and increasing problems with social dislocation. So while many political economists

were predicting the demise of US hegemony and talking up the weaknesses of the US economy and its seemingly inevitable replacement by Japanese-style capitalism (providing a precursor to the 'Varieties of Capitalism' (VoC) debate [Hall and Soskice, 2001]), Strange identified a shift from state power to the market, providing the US with greater structural power in the international political economy (see also Helleiner, 1994; Seabrooke, 2001). Strange also stressed that to understand how the US could generate structural power in the international political economy, it was necessary to understand political and economic cooperation *within* the US (Strange, 1987, pp. 553–4). Suggested here is the view that students knew US power when they saw it in the international realm, but had a harder time explaining domestic changes within the US.

Indeed, akin to John A. Hobson's (1902) analysis of British imperialism, analysing change within the US may provide the means to understand better the 'economic taproot' of US imperialism (Seabrooke, 2004). This review considers the three excellent books listed above with this in mind. A word of caution is required. While the books focus on US-led changes, and they all discuss the US within a broader comparative or international context that allows us to discuss the economic social sources of US structural power, they are not explicitly directed at the US empire debate. However, this is all the better for the purposes of this review, since they are less inclined to present stylised facts about US economic weaknesses and more likely to produce counter-intuitive insights. The books are also of broader conceptual interest for political economy and economic sociology, especially in their understanding of how actors determine their preferences and interests, and the role of knowledge and ideas in creating institutional change (e.g. Blyth, 2002).

## The Decline of US Manufacturing?

Let us begin with the book that we might expect to have the least relevance to the US empire debate. Josh Whitford's *The New Old Economy: Networks, Institutions, and the Organizational Transformation of American Manufacturing* is a carefully crafted and researched piece of scholarship based on exhaustive interviews with manufacturers in the American Upper Midwest. To my mind, the book presents a new benchmark in work that fuses organisational sociology and comparative political economy, primarily because it overturns common assumptions, both about how firms work in the US economy as well as what we may call the logic of the firm.

Whitford explains how globalisation has not simply led to the mass loss of jobs from American manufacturing (some three million between 2000 and 2003), nor to the complete outsourcing or offshoring of American productive capacity. While both of these processes have occurred to a large extent, examining the effects of globalisation on the US economy provides an opportunity to refute notions that there is one style of US capitalism. As such, rather than VoC, Whitford

is among a range of scholars examining ‘varieties *in* capitalism’ (e.g. Berk and Schneiberg, 2005). In the US case there are especially good reasons for doing so, since ignoring sources of innovation leads us to become ‘far too pessimistic about the tools available for the construction of institutions to facilitate collaborative nonmarket coordination even in the ostensibly unfeasible American context’ (Whitford, p. 48). Others have also acknowledged that while the VoC framework has great strength in parsimony, its binary separation of Liberal Market Economies (LMEs) and Coordinated Market Economies (CMEs) can exaggerate the relative weight of coordination and/or competition in each, providing a rosy picture of Germany (*the* CME) and a downcast picture of the US (*the* LME) (Blyth, 2003).

Whitford provides an important reminder that while the contemporary focus on the US is on finance, telecommunications, information technology and similar, international trade is predominantly in goods. The US goods trade deficit, after all, outweighs the US service trade surplus by a factor of 10:1 and, during the period of study, was growing faster than the growth in US services in the world economy (p. 12). Nevertheless, since 1979, when US manufacturing was at its post-war employment peak, 44 percent of jobs had been shed by 2004, reducing manufacturing as a proportion of the US workforce from 23 to 13 percent. Whitford convincingly demonstrates that it is a mistake to treat all deindustrialisation as of a piece, as to do so masks the degree to which it was also a process of de-unionisation, de-urbanisation and, particularly, of decentralisation (p. 1, p. 154). US manufacturing is a highly regional affair and as wages were reduced due to global economic pressures (as his interviewees testify), there is relocation to the extent that job losses were very concentrated in certain cities even as other regions gained jobs (p. 11, p. 87). So while in general there is a decline in wages during the period, and a strong perception of US manufacturing decline associated with the American automotive industry, there has in fact been enough heterogeneity in the process that simply to say ‘industrial decline’ is too facile.

The key pressure from globalisation is for firms to disintegrate vertically – that is, that as a consequence of increased global competition, technological advance and a more finicky and demanding customer public, Original Equipment Manufacturers (OEMs) seek to specialise in ‘core competencies’ so that they have a chance of staying ahead of the game (p. 17). OEMs then outsource, and create network ties with supplier firms, rather than attempting to keep all production in-house. Whitford examines this change to a ‘new old economy’, drawing from over a hundred interviews with 56 durable manufacturing firms with a range of products, including agricultural and construction equipment, metals and tool makers, non-automotive vehicles, medical equipment, plastics and others.

The most important element of the book is that the character of US manufacturing capitalism is somewhat different from what we may guess. Normally we would assume that firms engage in two kinds of relationships – either long-term collaborative relationships or arms-length competitive relationships. Whitford

demonstrates that most relationships couple elements of collaboration *and* opportunism, of arms-length competition *and* deep interdependence (p. 27, p. 110) in seemingly contradictory, yet prevalent and stable, relationships. These are generated by, but also generate, substantial relational uncertainty. And they do give manufacturers the tools to respond quickly to market shocks and to technological advances. But they also leave the industry, and the supplier firms that Whitford shows to have become central to the sector's performance, to be vulnerable to requests for lower prices that reduce margins and thus sabotage their investment in worker training, R&D and capacity for innovation. This is not only a problem for US firms, but all suppliers in the international political economy (p. 119).

*The New Old Economy* draws on this finding to show that the heterogeneity and partial collaboration can enable the US government at federal, state and local levels to engage in modernisation and innovation processes in ways the VoC literature predicts to be institutionally proscribed. The Wisconsin Manufacturers' Development Consortium (WMDC), for example, is discussed as an association of private firms that has worked with the state for industrial modernisation (pp. 135–53). In contrast to how the US is commonly seen, there can be (and is) a role for government in fostering innovation. The US federal government's Manufacturing Extension Partnership (MEP), for example, was given a boost by the Clinton administration to provide partial funding for not-for-profit manufacturing modernisation centres, as long as state and local governments came to the party, and as long as private business played a coordinating role. This programme had its budget cut by the Bush administration before being reinstated following political outcry, within the context of industrial job losses, in 2005 (pp. 134–5). The capacity for positive state–market relationships is commonly attributed to CME states (e.g. Culpepper, 2003), and while it is assumed that US business is incapable of organising collectively, the problem is really getting different levels of government to coordinate effectively (Whitford, p. 153). This argument dovetails nicely with other new work on the more ordinary, everyday social sources of financial power in the US, such as through mortgage securitisation and state intervention for creditworthiness for the lower–middle classes (Seabrooke, 2006a). While the US undoubtedly has a dog-eat-dog economic system, it is also capable of helping old dogs learn new tricks.

It should be noted that Whitford provides a significant conceptual innovation for economic sociology and comparative political economy. In particular, Whitford weaves through social embeddedness networks literature, the VoC literature and also the 'neo-pragmatist' 'learning by monitoring' literature (Sabel, 1994). Whitford demonstrates that some US manufacturing firms are using 'neo-pragmatist' techniques to innovate and learn from other systems, so that rather than facing overwhelming uncertainty they embrace ambiguity as a creative force (pp. 29–30, p. 46; compare Best, 2005). If such pragmatist techniques exist – albeit in partial and fragmentary form – in the sector of the US economy written off

since the 1980s, then we may pause for thought about the sources of US structural power in the early twenty-first century. Indeed, during the 1980s and 1990s Strange stressed how an important component of structural power was knowledge regimes, and in manufacturing Whitford stresses the extent of innovation (see also Stopford and Strange, 1991). He does not, by any means, discount the severe costs to labourers imposed by the restructuring of the last decades, nor the struggle faced by supplier firms who can have their profits undercut by aggressive OEMs able to leverage a far-flung network of global producers. In an environment where there is increasing emphasis on examining how global corporations establish benchmarks and learn from each other's different localised environments (Kristensen and Zeitlin, 2004), Whitford's work calls us not to write off US manufacturing in 'old' industries, but to see it as retaining a capacity to innovate in the world economy.

### **The Diffusion of US-style Corporate Governance?**

Peter A. Gourevitch and James J. Shinn's *Political Power and Corporate Control: The New Global Politics of Corporate Governance* blends quantitative and qualitative comparative analysis to produce a formidable piece of research on why systems of corporate governance differ according to political compositions present within states. There is little doubt that the book will become something of a 'bible' for students of corporate strategy and political economy alike. It directly contributes to a growing literature on how multinational corporations' strategies and practices are overwhelmingly homespun (Doremus *et al.*, 1999). Gourevitch and Shinn frame their analysis against the popular backdrop of corporate scandals, such as Enron, WorldCom, Vivendi, Parmalat and others. The fear here, of course, is that weak corporate governance leaves both shareholders and those with pension fund contributions managed by a corporation in deep trouble. What determines the extent of the trouble, for Gourevitch and Shinn, is largely driven by how political coalitions play out within the home state. The basic approach in the book will be of no surprise for students of political economy. After all, Gourevitch's *Politics in Hard Times* (1986) is a classic text in which he analysed how states responded differently to the Great Depression with the aim of producing a 'historical sociology of the trajectories of national responses to external changes' (Gourevitch, 1986, p. 221; compare Seabrooke, 2007b). The key figures in this earlier work were financiers, agrarian interests, labour and the organised political interests they represented. In *Political Power and Corporate Control* the key players are owners, managers and workers, and the political coalitions and interests they forge, or who represent them.

Given the focus on owners, managers and workers, the book concentrates on separating out shareholding rights and ownership concentrations in different national contexts. In a manner complementary to Daniel Verdier's (2002) excellent analysis of the relationship between state centralisation and stock market and banking systems, Gourevitch and Shinn discuss the historical development of

corporate governance systems according to the number of 'veto players' within the political systems, with majoritarian systems exhibiting fewer points compared to consensus systems (p. 69, p. 71). The kind of politics, dependent on the context of the period, then determines the form of corporate governance within the country cases. In addition to the US, a diverse range of states are discussed, including China, France, Germany, Korea, the Netherlands and the UK, among others. The cases are explained by how the politics shapes the 'degrees of coordination', the rules that structure markets (including regulations on labour, pricing, anti-trust and supplier-distributor relations) and the extent of minority shareholder protections (MSPs) (p. 11). There is also a useful distinction between external investors who establish a board to monitor managers, and internal 'blockholders' who provide direct monitoring. The book provides a wealth of quantitative evidence which clarifies how states fit into this framework. Here the basic relationships are that workers will side with managers for employment protection, but will side with owners (and vice versa) when pension fund systems make them stakeholders in a company. Also, there is a close relationship between owner 'blockholders' and managers in more consensual systems, where workers are more likely to have a strong voice (p. 23).

For this review, the most important aspect of the book is the attention given to how the regulation of pension plans and financial institutions can explain changes to US corporate governance. To kick this story off Gourevitch and Shinn use the 'analytic narratives' framework associated with rational choice analysis (Bates *et al.*, 1998) to trace key moments, such as in a punctuated equilibrium model, that have changed US corporate governance over the past century. The US case starts with blockholders, such as Rockefeller and Carnegie. In this sense nineteenth-century US corporate governance is not necessarily all that distant from Germany. However, oligarchs in the US case adopted a very thin form of MSP to protect their own interests during a period of merger and acquisitions activity (Gourevitch and Shinn, p. 243). The authors then follow moments of crisis at which the power of oligarchs was threatened and then reduced, to the benefit of MSP, from the Sherman Antitrust Act of 1890 to the creation of the US Securities and Exchange Commission (SEC) and the Glass-Steagall Act, which separated commercial and investment banking, in the mid-1930s, to the collapse of pension funds in the 1960s that spurred employee protection in the 1970s, and to the Democrat-led attack on the tax deductibility of pension contributions by firms with the Tax Equity and Fiscal Responsibility Act of 1982 (pp. 244–9).

The transition within the US pension system from *defined benefits* to *defined contributions* is hugely important for economic change within the US economy, and for change in the world economy more generally. As Paul Langley (forthcoming) clarifies, defined contribution 'schemes are invested on the behalf of workers by scheme trustees and the asset management industry, and the employer bears the risk that returns on investment may not be sufficient to meet guaranteed benefits'. In the US case this took place through the development of '401(k)s' in

the 1980s that established a new logic for the individualisation of economic responsibility for both workers and the institutional investors they operate through. The change is also critical in reconfiguring relations between owners, managers and workers in the US case as shareholder value becomes important for workers, leading them to call for greater corporate transparency (in 1999 the US had \$7 trillion in pension assets of which 60 percent was in equities). This is a broader social change and, as Gourevitch and Shinn argue, the expansion of 401(k) schemes to provide future retirement income included 'groups not traditionally engaged in politics as investors' (p. 243, p. 249; see also Seabrooke, 2006a, pp. 133–6).

Given these shifts, senior managers reacted to how workers had sided with external owners by buying large blocks of shares (as much as 10 percent between 1990 and 2000) and, in doing so, distorting corporate strategies that led to the scandals of the late 1990s (Gourevitch and Shinn, pp. 251–3). Such actions were accompanied by financial deregulation of the same period. As the authors discuss, this situation led to intensive political pressure that crystallised in the Sarbanes-Oxley Act of 2002, which provides more stringent evaluation and disclosure requirements on public companies, including prohibitions on inside trade during pension fund 'blackout' periods (p. 257).

There is no doubt that the trajectory of change discussed by Gourevitch and Shinn has had a global impact. And the impact is American in character. Indeed, one could be forgiven for thinking that Gourevitch and Shinn see high MSPs and low ownership concentration as positive (the US is first in both categories here [see p. 48, p. 53]). They do argue that rather than a 'race to the bottom' in corporate governance, there will be a 'race to the top' – while also realising that the US itself has experienced a range of corporations whose managers have relocated them to states with less comprehensive MSPs (pp. 288–9). One could also question here the extent to which the rationalist approach adopted by the authors favours the suggestion that workers, managers and owners are willing to take on board additional uncertainty for greater economic reward. Indeed, others have criticised the kind of punctuated equilibrium models that match policy change to political coalitions on the grounds that they are blind to how changing economic ideas and expectations about *how the economy should work* among broader society can prioritise certainty and provide unexpected constraints on politically powerful actors (Seabrooke, 2007a; 2007c).

### **Do US Bond Rating Agencies Provide Informal Imperial Rule?**

Timothy J. Sinclair's *The New Masters of Capital: American Bond Rating Agencies and the Politics of Creditworthiness* is a carefully crafted investigation of these very important but understudied actors in the international financial order. Sinclair's book undoubtedly establishes him as *the* political economy scholar on rating agencies, and goes a long way to demonstrating complementarities among con-

structivist and rationalist approaches. In particular, Sinclair is interested in learning from economic sociology to understand the creation of a market (p. 11).

Sinclair establishes how rating agencies have become an 'authoritative source of judgments' in the assessment of creditworthiness in domestic and international capital markets, and therefore wield considerable power and influence (p. 2). He traces the historical development of the key agencies in the US (most notably Standard and Poor's and Moody's), and illustrates the impact of agencies in a variety of public and private contexts, including their effect on sub-national governments, sovereign debt, corporations and international financial crises (see also Sinclair, 1994; Mosley, 2003).

For Sinclair US rating agencies are social actors that rely on the construction of intersubjective understandings to have an impact within the marketplace. They therefore seek to take market uncertainties and transform them into predictable risks. Sinclair draws a parallel between how rating agencies operate and John Maynard Keynes' story of how uncertainty reduction within financial markets is akin to a newspaper's beauty pageant competition. Here the winner was the reader who chose *not* the prettiest girl according to his or her own subjective preference, but the girls closest to what all other contestants chose, to conform with their intersubjective preferences (p. 52). Similarly, rating agencies are recipients of information within an uncertain intersubjective environment as well as creators of information that seek to mitigate uncertainties by putting forward a subjective understanding that claims to be superior to others. The trick here for agencies is to be viewed as endogenous to uncertainty mitigation under financial globalisation rather than exogenous to these processes. Achieving such endogeneity, however, requires that their information on ratings must be consistent over time to have credibility (p. 15, pp. 41–2).

Sinclair argues that a change in practices within US domestic and international financial markets has bolstered the role and importance of rating agencies. Of particular importance here are the US-led processes of *disintermediation* – where debt securities are replacing traditional bank loans – and *securitisation* – where capital from stable sources of income is channelled into the financing of debt securities (p. 3; see also Seabrooke, 2001; 2006a; 2007a). Both processes have encouraged US financial market actors to use shorter-term horizons and larger volumes of capital, and to rely more on rating agencies for judgements of creditworthiness rather than, as with traditional mediation, local trust and reputation. Fixed-income securities are the best case here for Sinclair, since changes to their value within the marketplace is driven by how they are rated (p. 86).

In drawing from international relations and economic sociology literatures, Sinclair formulates the notion of an 'Embedded Knowledge Network' (EKN) to clarify how rating agencies seek to achieve endogeneity within financial markets. In putting forward the concept of EKNs, Sinclair draws upon the epistemic communities literature to discuss how they provide new ways of rationalising a

scenario (p. 14). As EKNs, rating agencies produce benchmarks around which other actors converge, therefore providing them with 'unconscious power' from the establishment of a 'mental framework of rating orthodoxy' rooted in the US context (p. 17). In particular, Sinclair is interested in understanding the mechanisms involved in a transition over time from a 'hegemony of social interest linked to growth and expansion' that has transformed into 'an interest more narrowly concerned with the reproduction and safeguarding of its wealth' (p. 87). By exposing this mental framework Sinclair seeks to stress that the ratings given by agencies are not natural but contestable claims (p. 50).

Sinclair's argument throughout the book is broken down into three aspects: investment, knowledge and governance. By focusing on these categories Sinclair is able to illuminate the connections between material incentives for investment, the construction of knowledge on creditworthiness and changing practices among those who are being rated or seek to be rated (pp. 18–20). This is especially the case given that creditworthiness is both a causal belief (i.e. the likelihood of repayment) and a principled belief (i.e. the obligation to repay) (pp. 65–6). These sub-arguments are also complemented by a skilful use of counterfactual analysis, which concedes ground to rationalist approaches as a default position only then to tear it away in demonstrating the power of knowledge used by rating agencies and therefore illustrating the relevance of a constructivist approach (p. 72).

The book runs through a number of case studies that demonstrate how US rating agencies have developed a framework for the rationalisation of creditworthiness assessment, how they typically impact on the fate of corporations, national and sub-national governments and sovereign debt. The book discusses the 'blown calls' in international financial crises in recent decades, as well as corporate scandals that have rocked the US (such as Enron). Through these cases Sinclair carefully works through the investment, knowledge and governance sub-arguments, aided with counterfactual analysis to demonstrate why the rating agencies' judgements matter unto themselves. He also carefully details how changes within the US have led to changes in private governance in the international political economy.

On US corporations, Sinclair demonstrates that without ratings downgrades GM would have kept on issuing debt securities in the early 1990s (p. 79). Similarly, Ford was on the end of the sting from rating agencies, which constructed a sense of crisis within the company (p. 80, p. 83). More generally, he demonstrates how powerful rating agencies are in changing political actors' perceptions of the importance of conforming with a norm of fiscal conservatism in order to reduce the cost of accessing capital markets for government operations (p. 101, pp. 111–3, pp. 140–1).

A key theme in the book is the relationship between rating agencies and the US political and economic environment. In particular, Sinclair discusses how the US SEC granted the major rating agencies the title of Nationally Recognized Statistical Ratings Organization. As such, they are increasingly integrated into US

domestic regulation and international financial regulation as legitimate actors that potentially constitute a further extension of US structural power, in accordance with Strange's framework. Such status also leads rating agencies to act with great bravado, including the increasingly common practice of rating some firms without their prior consent (p. 30). Increasingly, then, this leads agencies to 'rule at a distance', in which 'social forces are self regulating within the norms of the system' (p. 67). Sinclair argues that 'Rating agencies did not invent these governance structures but act as interpreters, advocates, and enforcers of them around the world' (p. 20). At the same time, the agencies produce the 'universalization of self-regulating markets and the exoticization of other modes of social interaction' (p. 60), which suggests a more diffuse process of US hegemonic or imperial control.

## Conclusion

The three books reviewed in this article all provide unique insights into institutional change in the US economy. Accordingly, they provide an important reminder that when discussing US empire we should not rely on stylised facts and sweeping conclusions concerning how the American economy is crumbling from the inside, but should instead turn to cutting-edge research that explores what is happening 'at the coalface'. In this way we can answer Susan Strange's call (1986) that understanding US structural power in the international political economy requires us to examine changes within its domestic political economy.

How do these books help us understand the 'economic taproot' of US empire? At first cut the books provide mainly positive news about change in the US economy – and good news is hardly associated with the debates about the Bush administration's turn to aggressive unilateralism. It is common to link regressive domestic economic changes to a negative turn in foreign economic policy. My own work has been in this vein, pointing out how the Bush administration's changes to taxation, credit and property policies are especially harmful to people on below median income (especially the poor) and undermine its social source of financial power, while at the same time the character of US influence abroad is more like the kind of *rentier*-style behaviour we associate with imperialism (Seabrooke, 2004; 2006a, pp. 206–13; 2007a). However, we need to look beyond the negative aspects of changes put in place by the Bush administration. The books reviewed here demonstrate that little can be taken for granted in the US case and that exploring contestation between groups about how the economy should work is particularly important for understanding domestic economic change. In this light, Whitford demonstrates the extent to which the decline of manufacturing must also be understood as a process of innovation and transformation that permits some US firms still to lead within their area in the world economy. Such innovation has been created through 'contradictory collaborative' relationships between firms that defy the assumed logic of either arms-length competition or close collaboration between firms. Gourevitch and Shinn

demonstrate the extent to which there is ongoing contestation, especially during periods of crisis, among workers, owners and managers that now provides Americans with intensive MSPs and also increased scrutiny on corporate governance *because* of domestic political coalitions. As there is a diffusion of corporate governance from the US outwards, understanding how diffusion will not simply lead to isomorphism but will produce persistent variation due to domestic politics is important in understanding the limits of US imperial reach (compare Broome, 2006). Finally, Sinclair's book speaks volumes on how changes in creditworthiness assessment have produced new forms of mixed quasi-public governance (through bond rating) within the US economy that are transforming the world economy. As such, his work directly contributes to our understanding of the nature of US structural power in the world economy in the early twenty-first century.

Finally, the three books demonstrate important domestic and international effects that political economy scholars can only tackle with some help from economic sociology and organisational sociology (see also Campbell 2004). For example, Whitford demonstrates how incrementally changing expectations in the everyday life of firms is important for the national economy and US firms' engagement with the global economy. This is something quite different from studying institutional change, as Gourevitch and Shinn do, within what is essentially a punctuated equilibrium model of change. By understanding 'everyday' dynamics we may be more able to recognise that uncertainty and ambiguity can produce seemingly contradictory yet beneficial relationships, rather than focusing on uncertainty as a period of crisis in which political coalitions make a clear push for institutional change (compare Seabrooke 2006b; Hobson and Seabrooke [forthcoming]). Similarly, Sinclair helps us to understand how US power in the contemporary international political economy is being extended in more diffuse forms through the notion of an Embedded Knowledge Network. As such, both Whitford and Sinclair provide conceptual advances on the role of intersubjective understandings in generating institutional change (see also Sharman, 2006), while Gourevitch and Shinn acknowledge that understanding how 'People's preferences are mediated by the way they understand what is happening ... [requires] collaboration with sociologists' (p. 287). In sum, all three books make great strides in helping us better understand the relationship between US domestic institutional change and US influence in the world economy, and especially that our stylised facts about the weaknesses behind US empire require updating or at least questioning.

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