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Book Reviews

J. Rogers Hollingsworth, Philippe C. Schmitter & Wolfgang Streeck (eds.): *Governing Capitalist Economies. Performance and Control of Economic Sectors*. New York/Oxford: Oxford University Press, 1994, 316 pp.

Governing Capitalist Economies is edited and authored by well-established researchers known from their contributions to the theory and analysis of industrial politics, industrial relations, business–government relations, and corporatism. The choice of countries and industrial sectors reflects the prevailing knowledge and competence of these social scientists, among them Bo Stråth, Wyn Grant, Franz Traxler, and Alan Cawson.

The book contains a defining and theoretical introduction by the editors followed by nine comparative analyses of selected industrial sectors in two or three countries, especially focusing on Britain, Germany, Japan, and the United States and including industrial sectors such as ship-building, dairies, cars and consumer electronics. Finally, Hollingsworth and Streeck discuss the themes of the book and put them into a broader perspective.

The main themes of the book are the notion of capitalism as a social order, the importance of sectors in conceptualizing and understanding the development of capitalism, the interrelations between social institutions and economic performance, and the problem of convergence of the development of capitalist economies. The underlying premise of studying these themes is that economic action as a special kind of social action needs to be coordinated by institutional arrangements. Taken together, these coordinating arrangements, or governance mechanisms, form the economy's system of governance, defined as the "totality of institutional arrangements – including rules and rule-making agents – that regulate transactions inside and across the boundaries of an economic system" (p. 5).

In contrast to mainstream economics, this book suggests not only two but five governance mechanisms: markets, corporate hierarchies, the state, informal networks, and associations – or, when strongly institutionalized, private interest governments. The basis for this typology is not explicit, but the differences between the mechanisms are made clear through illustration by examples and through the critique of economic theorists.

The concept of industrial sector – defined as "a population of firms producing a specified range of potentially or actually competing products" (p. 8) – is important in the theoretical introduction as well as in the empirical analyses, because it directs attention to the fact that economic control mechanisms do not only vary from one country to another but also among industrial sectors due to diverging economic and technological conditions. And because industrial sectors provide important frameworks for an efficient administration of public policies, it seems very reasonable to investigate the divergencies of capitalist development through comparative analyses of industrial sectors.

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It is a very central assumption of the book that governance mechanisms matter: different governance mechanisms have different impact on the performance of industrial sectors in international markets. The introductory chapter does not put forward an explicit definition of performance (but points to a number of performance criteria) nor does it operationalize the interrelations between governance mechanisms and economic performance. Operationalization and listing of indicators are performed in the individual empirical chapters, which to varying degrees confirm the assumption, e.g. in the comparison between the American and the Japanese steel industry (ch. 3). These sectoral governance mechanisms within nation-states are, however, influenced and transformed by the pressures of international competition, and different modes of sectoral governance as well as different modes of national regulation "may have different capacities for conforming to these pressures" (p. 10). The result may be different though equally competitive solutions. That is, governance mechanisms make a difference concerning economic performance, but this does not imply that specific modes of sectoral governance are superior to all other modes of governance.

The increasing globalization of the economy has eroded the external and internal sovereignty of the nation-states and, thus, made it doubtful if national political arrangements may still act as barriers against institutional convergence among capitalist countries. Economic globalization increases the importance of industrial sectors, because global sectoral governance mechanisms may develop due to the logic of the production structures of individual industrial sectors and due to sectoral application of technologies. Alternatively, firms may be so embedded in the existing totality of national social institutions that diverging governance mechanisms within the same industrial sector will prevail in the future, in spite of economic globalization. Owing to the "concluding" nature of the theme of convergence, the empirical analyses do not pay as much attention to this as to the other themes, but that is remedied in the final chapter.

The final chapter is more a discussion of the themes of the book – on the basis of the empirical analyses – than it is a traditional summary of the sector studies. Although the focus of the book is on governance within industrial sectors, and although one conclusion is that governance mechanisms matter, it is a major finding of the book that "Differences of governance within sectors are often recognisable as national differences in that they follow a similar logic across sectors" (p. 272). That is, national differences seem to account for consistent variations in the control and coordination of industrial sectors. More specifically, these cross-national variations are based on a number of important features and institutions. State intervention in industrial sectors is usually determined by national characteristics, though not without exceptions, e.g., the ship-building sector; national industrial relations and collective bargaining systems have a general bearing on sectoral governance; successful networks are often promoted by state agencies and public regulation as well as by nation-wide trade unions; and, typically, markets and corporate hierarchies function on the basis of national regulation of property rights, e.g., trust legislation, just as labour market regulation and employment policies do (pp. 273ff.).

The interrelations between governance mechanisms and economic performance are found to be far more complex than supposed in neo-classic economic literature, e.g., including alternating standards for successful economic performance. One of the conclusions is that there is a tendency towards national, i.e. cross-sectoral, favouring of typical standards of performance. American firms pay great attention to allocative efficiency and give high priority to maximizing rates of return on capital, and accordingly they emphasize the mobility of capital and labour; whereas German and Japanese firms, paying attention to more complex measures of efficiency, emphasize the education of labour, the efficiency of industrial processes, and product innovation.

If non-economic institutions are obtaining increasing influence on economic success or failure in the world markets, the pressure of economic competition may turn into a pressure for transformation of economically unsuccessful social systems. A competition like this among national systems of governance may further erode the "democratic sovereignty" (p. 283) of those political entities whose territories are much smaller than the markets in which their citizens operate. The authors, however, point out a number of reasons why convergence of national governance mechanisms of industrial sectors do not necessarily evolve. Each country's institutional totality is conditioned by its historically grown structure, making the number of developmental paths limited; and as the institutional adaptation is related to changing measures of best practice and taking place in a historical context with many future possibilities of development, the conclusion is that "the most important property of a competitive institutional system may be a *general capacity to respond to a wide variety of continuously shifting performance pressures*" (p. 288).

This problem of convergence of capitalist development points to the question of internationalisation of control and coordination. Internationalization may develop in several ways and – through the promotion of networks among sectoral actors across national boundaries – result in the creation of an "*integrated supranational governance*" (p. 289), whose driving force would be new international institutions and not market pressures or technological changes. However, both markets and corporate hierarchies are more easily internationalized than the other governance mechanisms, and from this follows the erosion of the nation-states' sovereignty over the industrial sectors, which is not countervailed by any automatic creation of the previous nation-state authority at a higher level, i.e. in the form of international public institutions. The consequence of this absence of a global economic regime is that empirical analyses of the proceeding economic internationalization must include the complex interaction between weak international and fragmented national governance regimes and its impact on the way in which markets and corporate hierarchies fit into the totality of sectoral governance systems.

The authors conceptualize three types of interaction between the international and national levels of governance: horizontal interaction among national regimes, delegated governance from the nation-states to an emerging international regime, and a supranational harmonization of the national regimes. In the first case, the nation-states will remain important bases of competitive advantages or disadvantages; as to the second case, private arrangements among large firms will dominate and informal networks will be more important governance mechanisms than will associative action; and the third case presupposes the growth of a strong state-like international organization – which does not seem likely because this growth is conditioned upon the same nation-states which are to be influenced by the international organization. This leads to a sceptical conclusion regarding the development of the European economy through a dynamic interplay with a supranational state.

Building on the insights produced by economic theory, this book on governance is a critique of and challenge to neo-classic and, although to a smaller degree, neo-institutional economic theory from a political economy approach. In retrospect, it manifests an ambitious development from the focus of neo-corporatism on interest associations in the late 1970s and early 1980s via the underlining by the sectoral studies in the mid-1980s of the important role of large firms compared to other actors in the economic development of capitalist countries. Still on the basis of industrial sector analysis, this book aims at a more comprehensive and differentiated analysis and categorization of cap ıalist development utilizing the concept of governance.

The political economy approa h is fruitful in analysing economic development in varying institutional settings; one wonders, however, why institutional theory within political science has not been taken more into consideration or, for that matter, criticized, especially as the state is conceptualized as one of the five governance mechanisms. The more general perspective of the book might have been broadened by a cross-sectoral definition of economic performance and operationalization of the interrelations between governance regimes and economic performance. This would not have made the inputs of the individual chapters in this regard superfluous, but, on the contrary, supported them; and the concept of economic performance encompasses so many political economy angles that a more general discussion of it would have been worthwhile.

The reader is to some extent taken by surprise by the intriguing conclusion that national, i.e. cross-sectoral, governance mechanisms or regimes – with exceptions and variations, of course – are more important than sectoral, i.e. cross-national, governance mechanisms in analysing and understanding the economic development and performance of industrial sectors. This conclusion is substantiated by the empirical studies; the problematique is a very complex one, however, and the concluding chapter might have been improved by a more explicit discussion of earlier attempts at handling it, e.g., Wyn Grant's *Government and Industry* (Edward Elgar, 1989) or Campbell, Hollingsworth and Lindberg's edited volume *Governance of the American Economy* (Cambridge University Press, 1991). And generalizing this point, one might say that *Governing Capitalist Economies* "needs" an enlargement dealing in a more focused way with the importance of governance mechanisms of spatial entities at different levels for the performance of capitalist economies.

It seems relevant to relate *Governing Capitalist Economies* to the just mentioned *Governance of the American Economy* because they have several features in common – but also a number of differences. *Governing Capitalist Economies* presents comparative analyses of industrial sectors in two or three countries, focusing on the consequences of governance mechanisms for economic performance, working with a rather broad typology of informal networks, and positioning the state as a governance mechanism in its own right. Furthermore, it deliberates the preconditions and consequences of diverging developmental routes concerning international sectoral regimes and a supranational economic regime. *Governance of the American Economy*, on the other hand, analyses the economic development of one country focusing on the transformation from one type of sectoral governance to another, analysing in depth the evolutionary changes and paying much attention to the processes through which the transformations are made possible and carried out. It also puts forward ideas for improving the performance of the US economy, though in rather general phrases.

An apparently major difference, which might have been addressed in *Governing Capitalist Economies*, is the more specified typology of networks and the different positioning of the state in *Governance of the American Economy*. The governance mechanisms of this book are conceptualized on the basis of two dimensions, the first one being informal organization versus formal organization, the second one bilateral relations versus multilateral relations among economic actors. The combination of these dimensions, in principle seen as continua, produces six ideal-type governance mechanisms, among which I may mention obligational networks, monitoring and promotional networks as three specific types of network. And this book does not, in contrast to *Governing Capitalist Economies*, see the state as a governance mechanism, but as a complex of structures, actors and actions which is different from the governance mechanisms but which influences these in many ways not open to organizations of civil society. The state may, for example, through legal action promote as well as counteract the growth of governance mechanisms. Finally, the definitions of the core concept of governance are slightly different.

One need not exaggerate these differences. The concept of networks in *Governing Capitalist Economies* encompasses bilateral as well as multilateral networks as shown in the empirical analyses. The diverging conceptualizations of the state may just reflect the differences of the countries selected for analysis, and the diverging definitions of governance do not seem to have important implications for the analysis. On the other hand, this may provide themes for more theoretical studies.

Among the industrial sectors analysed, both books include the steel, car and dairy industries. Obviously, the analyses of the American industrial sectors in *Governance of the American Economy* are more in-depth and detailed and generally they bear a closer relation to the book's main problematique than do the comparative analyses in *Governing Capitalist Economies*, which work in turn underlines the differences between governance mechanisms and regimes more than it is done in *Governance of the American Economy*. To illustrate the point, the two analyses of the American steel industry differ in a number of respects: *Governance of the American Economy* includes several examples of network formation and also presents a number of conditions of importance to the absence or delay of governance transformation, whereas *Governing Capitalist Economies* presents governance through networks as a Japanese phenomenon and corporate hierarchies as the predominant American governance mechanism within this sector.

Governing Capitalist Economies and *Governance of the American Economy* are very recommendable. To some extent, their theoretical framework and empirical analyses focus differently, but they both present important theoretical and empirical contributions within the political economy tradition to the analysis of contemporary capitalist development and governance.

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