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DISCUSSION FORUM

On Suzanne Berger '*How We Compete: What Companies Around the World Are Doing to Make it in Today's Global Economy*', New York, Doubleday, 2005

Panel at the SASE 2008 Annual Meeting, San José, Costa Rica

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Wolfgang Streeck

Max Planck Institute for the Study of Societies, Cologne, Germany

Correspondence: streeck@mpifg.de

How We Compete, already a classic, is about 'companies around the world' and what they 'are doing to make it in today's global economy' (Berger, 2005). It is *not* about states and governments and the problems they are facing under globalization, although it touches on them, laudably, in the final chapter. This suggests comparison with another MIT book that came out 16 years earlier, in 1989: *Made in America: Regaining the Productive Edge*, written by Michael Dertouzos, Richard Lester and Robert Solow (Dertouzos *et al.*, 1989). (Berger, incidentally, was a major contributor to the Dertouzos *et al.* project, and her book is dedicated to the memory of Dertouzos.) Both books are extremely well written, are highly instructive for both non-specialists and academics, have clear conclusions and are full of powerful illustrations based on

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well-researched case material. But I believe that it says something important about what has happened in the last two decades that the book by Dertouzos *et al.* was so much more political (see in particular Chaps 2, 6, 8, 10 and 11) than Berger's book, which is mostly about the choices of firms and managers and only marginally about those of national governments and politicians. The following reflections will try to explore some of the reasons for this difference and what they might imply.

At first glance, *How We Compete* is overwhelmingly good news. According to Berger, and in sharp contrast to the neo-liberal mantra of recent years, there is no one best way for business firms to respond to the challenges and opportunities of globalization, whether in manufacturing or in services. For example, offshoring can be helpful, but you can do without it, and do very well. Similarly, outsourcing may boost your competitiveness, but it may also undermine it. Only one thing is certain: that cutting wages or moving abroad in search of cheap labour is not the way to succeed. What matters is, essentially, superior design, of both products and processes—a conclusion which is hardly surprising in a book that comes from the world's leading engineering centre—combined with entrepreneurial acumen and intuition, and clearly also with good luck. While this applies basically to all firms in all sectors and countries, it is just about all that can be generalized, meaning that it is definitely not convergence that is to be expected from globalization. This, of course, is in line with much received wisdom of socio-economists and historical institutionalists, for whom another book to which Suzanne Berger contributed continues to serve as an important source of inspiration (Berger and Dore, 1996). At the same time, *How to Compete* dissociates itself, and I believe with very good reasons, from the institutional determinism of some of the 'varieties of capitalism' literature, by emphasizing that national institutional legacies may be an asset for firms in international markets, but only if they are used creatively and selectively and in combination with new ideas that may be gleaned, among other things, from other national contexts. In brief, the picture that emerges is not one of uniformity, neither at the global nor at the national level, but of variety—of a multiplicity of ideas and experiments, situationally adjusted inventions, entrepreneurial risk-taking, new and ever-changing combinations of organizational forms and business strategies. In part, and indeed to a significant extent, this is because of continuously emerging new technologies, at MIT and elsewhere, which open the way to ever new methods of cooperation—of co-design and coordination—within firms and between them.

In the remarks that follow, I take this picture to be broadly accurate, leaving aside important questions such as the true limits and possibilities of modularization and the extent to which spatial proximity is and continues to be indispensable for productive cooperation. These questions will be left to others who are far more

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competent. Instead, my comments will focus on the sort of public policy that seems to be called for by a political economy inhabited by firms as active and agentic, and perhaps hyperactive, as those that Berger describes. Obviously, I am aware that this is not the main subject of the book. But then, as I said, this in itself may be telling, indicating that today, in contrast to the 1980s, the action on which the way we will live and prosper economically depends seems to lie less than ever in the polity and more than ever in the market and the large firms—not because we want this to be so but because the world, and in particular the way the economy is embedded in it, appears to have profoundly and irreversibly changed.

Reading the book I was reminded of the famous aphorism, *Die Wirtschaft ist unser Schicksal* (the economy is our destiny), by Walther Rathenau, a German businessman and political leader at the beginning of the twentieth century. Rathenau, a former president of the German General Electric, AEG, who was murdered by right-wing terrorists in 1922 when he was Foreign Minister of the Weimar Republic, was one of the architects, along with Social Democrats like Rudolf Hilferding, of German organized capitalism: of an attempt to bind the giant capitalist firms that were rising at the time into a social compact under the leadership of democratically elected government, where they were to serve the interests of the community as a whole and not just those of their shareholders and managers. In its democratic version, organized capitalism, in Germany and elsewhere, was to bring the economy, and with it the collective destiny of modern industrial society, under the control of the politically organized society, *rather than the other way around*. As we know, the crash of 1929 and the Great Depression of the 1930s ended this dream for most nations, and it was only after another World War that a global economic order came to be instituted that for a limited period managed to reconcile a capitalist economy with popular democracy and social stability. That order began to disintegrate in the 1970s, gradually but all the more effectively (Streeck, 2009). Still, it remains the historical background on which we must now assess the emerging new relationship between the polity and the economy, between democratic government and capitalist enterprise, and the extent to which our economic and social destiny is for us to choose or, alternatively, to receive as a dictate from the superior force of the market.

Seen from this perspective, that the final, political chapter of Berger's book is so short may simply reflect the fact that the centre of gravity in the capitalist political economy has shifted away from politics and moved towards the market. Having surveyed the new dynamism of capitalist enterprise under conditions of global competition and global opportunities, Berger identifies three kinds of policies that she considers effective tools for the democratic state to safeguard the interests of its citizens: 'policies to sustain openness,

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policies to improve education and policies to support innovation across the economy' (Berger, 2005, p. 282). To understand the good reasons behind this catalogue, it is useful to remember that democratic government must express the needs and defend the interests of social communities settled in a given territorial space, with their multiple purposes and functionally diffuse social bonds—social entities that are profoundly different from economic organizations. The willingness and indeed the capacity of people to respond to economic incentives and comply with market imperatives is, as we know, considerable and has recently grown beyond expectation. But it is clearly not unlimited. Ultimately, it is still the case that social communities cannot be infinitely restructured in line with the needs of efficiency-seeking firms struggling to survive in competitive markets. For example, while people are, today more than ever, prepared to move where the jobs are, rather than insist that the jobs move to where they are, in the end they will always be more tied to their soil, territorially and socially, than the increasingly mobile firms with their wide variety of strategic options that Berger describes. This is, and always has been, where politics comes under pressure to use public power to make firms and markets adjust to what one could call the stickiness of socially integrated communal life. How and to what extent such attempts can be successful depends on the balance of power within the political economy, and in particular between profit-seeking capitalists of all sorts on the one hand and politically organized, community-seeking human beings on the other. That balance shifts as economic, political, technological and institutional conditions change, which in turn changes the content of the bargain that is struck between social stability and economic efficiency and between the conflicting logics of communities and markets.

There is little discussion of power in the book, and rightly so since not everything can be dealt with at once. But I venture to suggest that Berger would not disagree if I claimed that her book clearly shows that as a result of globalization and liberalization—and of the options they have opened for firms and the constraints they impose on them to make use of such options—the power of firms as compared with that of states, governments and political communities has increased. He who can exit, taking resources with him that are indispensable to others who cannot do so, wields power over those others (Blau, 1964). He who can exit does not have to listen to the voices of those who have to stay, unless he chooses to because what he hears sounds attractive to him. Indeed, it appears that the policy Berger suggests for democratic governments having to face today's increasingly enterprising firms consists essentially of making their communities so attractive to them that they voluntarily choose to stay or return because they find this economically advantageous. Certainly, this is not because Berger has converted to neo-liberalism. Rather it reflects, I believe, the historical demise of the political means, conceived under

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the organized capitalism of the past, to oblige capitalist firms to adjust their operation at least in part to the collectively articulated demands of people refusing to adjust their lives to the needs of capitalist firms.

If I read *How We Compete* correctly, then, I would summarily describe the role of national politics in the global economy as sketched out by Berger as the international marketing of national and local societies or the public offering of social communities on the world market for production sites. A politics of this sort replaces public obligations imposed on private firms with incentives for them not to make use of the many alternatives available to them elsewhere. After all, the flip side of the fact that firms today may freely select from their national legacies (Berger, 2005, p. 53) is that they are no longer bound by them. Where states are embedded in markets rather than markets in states, states must compete with each other for the favours of entrepreneurial firms and must themselves become entrepreneurial. Today, if a capitalist firm produces in a given country, this is, in traditional language, no longer a matter of status but one of contract, and one that is in principle renegotiable at any time. An incentive-based public policy of economic voluntarism—which is what the last chapter of *How We Compete* essentially describes—importantly includes the creation of a social climate that is welcoming to business, one without public protests by those who find themselves sidelined and without anti-capitalist or anti-free trade 'populism' of the Left or the Right. As Berger points out, this requires a social policy that is generous enough to immunize the citizenry against protectionist temptations of all kinds, which could only be economically disastrous for everyone. Community marketization also needs high and continuous public investment in education, given that a population richly endowed with human capital, including the right attitude towards hard work, may be the single most important public infrastructure that restless firms seek when selecting sites for setting up plants and, temporarily and reversibly, settling down. And, thirdly, there is investment in science, with leading research universities as poles of attraction that draw innovative entrepreneurs and firms from all over the world and thereby contribute importantly to communal prosperity.

Again, the political minimalism of this programme cannot be held against someone as acutely conscious as Suzanne Berger of the importance of politics and of a skilful and benevolent deployment of public policy for collective benefit. Rather, I take it to indicate a historically new condition in which political intervention in the economy is reduced to continuously inventing ingenious new ways of supporting the objectives of profit-maximizing firms, while being effectively prevented from extracting commitments and resources from them that could be used for collective objectives such as social equality or the protection of social life from market pressures. Note that such objectives have been or

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need to be given up entirely. But it seems that in the new world of a global economy, or of global capitalism, they can be pursued only indirectly, as a hoped-for side effect of the successful marketization of a society enabling individuals to negotiate for themselves as market participants the sort of benefits that they may previously have been entitled to as citizens.

Is a market-driven economic and social policy of this sort sustainable? Two questions, at least, impose themselves, the first addressing the limits to which the marketization of social communities can possibly be driven. Placing a society's bets on the market seems to require a profound cultural re-education of its members in a spirit of entrepreneurialism, competitiveness and efficiency, one that wipes out the last remnants of economic traditionalism and produces a thoroughly disciplined new working class willing to live with uncertainty, to take risks, work hard, accept defeat while continuing to believe in the basic fairness of the system, always hoping for a second chance, and proudly abstaining from calling upon politics for protection of all sorts. Where free markets happen to become associated with lasting inequality, those who end up at the bottom of society must be prepared to attribute their fate to a lack of virtue or a lack of luck or both, but *not* to a lack of political intervention. Rather than demand redistribution, they should voluntarily resign themselves to their position and ideally refrain from political participation altogether. I take this, by and large, to be the American condition, at least before and up to Obama—a condition that would clearly be difficult to recreate in countries like France or Germany, although strong efforts to this effect are being made and large parts of Eastern Europe seem to have already learned the capitalist lesson very well.

The second question is who is to pay for a public policy of cultivating entrepreneurial good will, in particular a social policy buying out 'irrational' resistance to economic openness, education enabling the national workforce, or parts of it, to compete in the global market, and basic science feeding knowledge to innovative firms? Sustaining the losers so they do not riot in the streets and scare away shy investors may not be as cheap as some may hope; the costs depend on how many losers there are and whether they learn to organize and drive up the price of their acquiescence. Mobile firms, in any case, are unlikely to be the payers, accustomed as they are to driving a hard bargain with governments. The same applies to education or, better, human capital formation. Why should firms allow themselves to be taxed for funding collective goods designed to attract them? In Europe at least, international tax competition (Ganghof and Genschel, 2007) today forces a growing number of countries to charge a growing share of the costs of education to their citizens and thereby increasingly privatize the risks of human capital investment. Of course, there are limits to taxing even a captive citizenry, and in fact public expenditure has for a long time been

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increasingly funded by borrowing, i.e. by extracting resources not from present citizens, but from less resistant future ones, raising the intriguing issue of how long this can continue.

Markets, that is to say, may be free but they are not *for* free. For example, the rising labour market participation of women, adding to the labour supply and thereby enhancing both national competitiveness and the sustainability of the welfare state, turns out to require an expensive infrastructure of childcare centres, provided that reproduction of the indigenous population is considered of public interest. The same applies to a labour market policy of activation, like in Denmark, which supports firms and economic growth but imposes very high costs on government and the social security system. Here as elsewhere, the tendency is for territorial communities to tax themselves and use the proceeds to persuade profit-seeking firms to utilize local labour and local social capital at their discretion. The result is a broad redistribution from public communities to private firms and an effective replacement of public obligations for the latter with incentives and rewards. Moreover, marketization of social relations may be politically demanding and economically expensive as it may cause gaps in the social fabric that need to be closed by the welfare state, for example by providing for public childcare. Other examples could be added where commodification gives rise to potentially disastrous unanticipated consequences that call for massive public assistance, like in the banking crisis. It is here at the latest that it becomes obvious that the role of government in a global economy of competing firms (Berger, 2005, p. 280) cannot and will not be confined to the political minimalism of preventing protectionism, educating the labour force and providing for advanced scientific research.

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Kathleen Thelen

Political Science, MIT, Cambridge, MA, USA

Correspondence: *kthelen@mit.edu*

In *How We Compete*, Suzanne Berger pulls together a wealth of data generated over 5 years by a multi-disciplinary team of 13 researchers. The project in itself is a remarkable accomplishment, bringing together an unusually diverse group of researchers (which included both engineers and social scientists), and forging as well a fruitful partnership between senior scholars and graduate students (many of whom went on to write their own books based on this research). Drawing on countless hours of interviews with managers across a wide range of industries—from electronics to textiles—in the USA, Japan, Germany, Italy and beyond, Berger constructs a compelling argument that calls into question arguments that suggest that intensified market competition forces a convergence in firm strategies around a singular 'best practice' model. Far from convergence, the message conveyed by these stories from the field suggests continuing strategic diversity as firms are guided more by their own 'dynamic legacies' than by technological necessity or even national institutional constraints as they have felt their way through the more turbulent international markets since the 1980s. The book instructs us that there are many paths to achieving and maintaining competitiveness. Berger argues that strategies premised solely on low wages are doomed to fail, but beyond this, success eludes any single recipe and instead in fact involves continuous learning and innovation.

The core argument advanced in this book is that as firms respond to new challenges, they typically follow their own 'dynamic legacies', which is to say that they draw on what they know from their own company repertoires. Berger adopts a view of legacies that I find overall very congenial. Thus, for example, and in contrast to rigid lock-in models that view legacies above all in terms of constraints inherited from the past, the argument in this book sees legacies as resources or as repertoires that can support a range of strategic responses. Outcomes are not wide open, and so we are talking here about choice within bounds, but with the relevant parameters mostly set within the firm and its own dynamic history.

I welcome the emphasis on agency and the idea of choice within constraints that informs this analysis. Indeed, I think that institutional analysis in some of its most prominent recent versions has gone very far in the direction of a kind of structural determinism that seems not to fit well with what we know about social and political reality. And yet as an institutionalist, I do wonder whether there are structures operating above the level of the firm that would allow us to see patterns among the company cases analysed in this book in a somewhat

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different light. So the questions that arise for me from reading this book centre on whether the emphasis here on company legacies is in fact meant, as sometimes implied, as an alternative to frameworks that emphasize overarching economic or political constraints—or as a supplement or amendment to these accounts. In the paragraphs to follow, I set the arguments in *How We Compete* against those advanced by other scholars who emphasize the independent causal weight of factors operating above the level of the firm.

First, in situating her argument against convergence theories, Berger seems to reject not just various forms of technological determinism, but also the independent causal weight of the kinds of meta-structures that other students of capitalism underscore. While reading *How We Compete*, I could not help but be reminded of a recent article in the pages of this journal, by William Sewell (2008). In that article, Sewell depicts capitalist development as 'eventful history on steroids' (2008, p. 526). As he puts it: 'At first blush nothing would seem to be more eventful than capitalism. New business ventures are launched daily, firms go bankrupt, stock exchanges and futures markets oscillate dizzily, develop bubbles or crash . . . ' (2008, p. 518). In Berger's book, too, there are myriad signs of precisely this kind of incessant churning as, for example, in the case of particular firms which the MIT team had targeted for return visits—only to find that they had disappeared.

The difference in these two accounts, however, is stark. Berger invokes this churning to suggest openness and the lack of any one direction of change, let alone convergence. In contrast, Sewell (2008) detects (even in the midst of this tumult) enduring patterns as well as an underlying structural logic: 'In spite of the eventful, indeed hyper-eventful, character of the capitalist economy, there appears to be a recurrent logic at the centre of the flux that generates a continuous, monotonously repetitive pattern' as well as a deeper logic, namely 'capitalism's powerful and consistent drive towards expansion' (p. 521). In short, the picture Sewell paints is one that embeds the observed ongoing tumult in a broad view of capitalist development:

> One can confidently predict that capitalism will expand, but it is impossible to predict the actual direction of future expansion—which seems to be governed by highly contingent and eventful logics. (Sewell, 2008, p. 523)
>
> To make sense of events like these, the analyst needs to think like a historian: to be attentive to contingency; to trace out the specific sequences of actions; to keep the chronology rigorously straight; to look constantly at the changing contexts of action; and to figure out what protocols people actually drew upon when they acted. . . But we also need to recognize the strange stillness—what one might call a

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> 'stillness-in-motion'—at the core of capital at its most abstract level. (Sewell, 2008, p. 526)

Sewell is not alone in this; other observers also detect a strong directionality in the churnings of contemporary capitalism. Authors such as Andrew Glyn, Chris Howell and Wolfgang Streeck suggest that what we are witnessing is a broad liberalization, signalling the breakdown of many of the institutions we associated with a previous more egalitarian form of 'coordinated' capitalism (Howell, 2003; Glyn, 2006; Streeck, 2009).

In contrast to these accounts, Berger does not attach her analysis of company adjustment strategies to this kind of meta-story, and she explicitly (and compellingly) dismisses convergence theories, including those based on a logic of liberalization. The question this raises in my mind is whether rejecting convergence is meant at the same time to refute the idea of any kind of directionality that might be observable if we move beyond the analysis of individual firm strategies and look instead at broader patterns that might be said to be associated with the development of capitalism at this particular historical juncture. One is reminded in this context of core insights from the French regulation school, which appreciated national and company diversity but which was also very much attuned to broader patterns in the development of capitalism at the global level.

An alternative line of argumentation, which on its face appears to be more consistent with Berger's message of continuing diversity, is the 'varieties of capitalism' perspective. Berger rejects the dominant such approach (that of Hall and Soskice, 2001) as overly stylized and deterministic. However, the rejection of that particular framework may or may not entail a rejection of all arguments that seek to link patterns of company strategy to variation in national institutional arrangements (alternative frameworks include Hollingsworth and Boyer, 1999; Kitschelt *et al.*, 1999; Streeck and Yamamura, 2003, to name a few). I was surprised at the extent to which *How We Compete* seems skeptical (or perhaps more precisely, remains largely silent) on the utility of frameworks that point to national institutional variables in making sense of company strategies, since Berger's own work in the 1980s played such a key role in sparking a vibrant strand of 'historical–institutionalist' scholarship that ran precisely along these lines (Berger, 1983). In *How We Compete*, the legacies that are at the centre of the analysis operate not at the national–political level but rather at the company level. The emphasis on company-level variables in *How We Compete* stands therefore in slight tension with many of the conclusions in the last chapter, which suggest that national institutional configurations and especially national policy have key roles to play in guiding firm strategies along particular paths.

Berger does not return to the 'varieties of capitalism' thesis at the end of the book, though she does note that national institutions seem to have a real

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impact even if she and her co-authors have focused their attention elsewhere (p. 280). We might well agree with Berger that broad categories like 'coordinated' versus 'liberal' market economies (CMEs versus LMEs, respectively) or alternatively 'non-liberal' versus 'liberal' political economies mask important diversity within individual countries. But do the kinds of variables these analyses point to give us less purchase on the differences documented in this book than the emphasis on company legacies? If so, why is that? Is it that national-level politics and institutions are important but that these aggregate categories (e.g. CMEs and LMEs) do not capture the relevant variation? What alternative categories might work better? Or is it that, in an increasingly interdependent world, national models are obsolete (if they ever were relevant) and we should direct our attention to other level of analysis? If that level is indeed that of the firm, should we take each company (with its own dynamic legacy) as a case unto itself? Or is the task to devise new categories and frameworks that might help us sort through these cases to identify common patterns or causal mechanisms?

With *How We Compete*, Suzanne Berger opens a can of worms that is well worth opening. The book sheds light on the processes of globalization that are transforming political, economic and social structures across the globe. Moreover, at a theoretical level, Berger is working on a crucial frontier issue in institutional analysis and comparative politics generally. The agenda is to harness the strength of institutional analysis but without falling into institutional determinism, or (to put it the other way around) to recognize the role of politics and choice without slipping into accounts of contingency and agency that defy efforts at identifying patterns. In short, this book makes real headway in exploring the role of agency within an institutional framework. Firmly rooted in meticulous research on the ground, it opens up and provides insight into some of the biggest and most enduring issues in social science.

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Josh Whitford

Department of Sociology, Columbia University, NY, USA

Correspondence: jw2212@columbia.edu

How We Compete is a remarkable book. I am sure that anybody who has ever used interviews with business people in their work will be impressed with its scope and sophistication. It is a big thing to weave together a description of changes in technology and corporate strategy, and to show their implications for managers and policy-makers alike. It is even bigger that Berger does so across a wide geographical playing field with such a diverse array of firms. And it is bigger still that her writing is accessible to the lay reader without sacrificing an ounce of importance in cutting-edge scholarly debates. It is a book from which I learned; and it is a book I use to teach both graduates and undergraduates that there is still an economy in which people make things, and to show them why it is mistaken simply to assume that those things will always be made wherever wages are lowest.

Yet I am writing here as a critic so I must air my concerns. In particular, I worry that Berger's characterization of 'modularity' as *the* primary 'enabler' of the globalization of production risks obscuring a key lesson learned from similar studies conducted in the 1980s and 1990s, viz that inter-organizational relationships (and their social/institutional determinants) matter *a lot*.

Recall that in those years vertically integrated Fordist behemoths were so obviously ailing in the face of technological and market change that scholars were virtually impelled to come to terms with the 'deverticalization' of production. Globalization mattered, and so did outsourcing. But these processes were seen as first organizational and then spatial. As Fabio Sforzi (2002, pp. 442–443) observed, 'the technical divisibility of the production process' and an 'expansion in demand for non-standardized goods . . . characterized by marked qualitative fragmentation and temporal variability' were necessary conditions for the competitive superiority of decentralized production. But they were not sufficient. Fragmentation of value chains also entails their recomposition. That is, there must be non-hierarchical mechanisms to coordinate the

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flexible recombination of multiple and changing production phases across organizational boundaries. Because the market was not by itself sufficient for this task, because key integrating mechanisms included trust and the sharing of tacit knowledge, and because these were, in turn, favoured by social proximity and thus also by spatial proximity, globalization paradoxically heralded a 'resurgence of regional economies' (Storper, 1995). Certainly, standardized inputs could—and often did—come from elsewhere, but it seemed likely that the relevant productive players would remain jointly embedded in a localized 'network within networks' (cf. Dicken and Malmberg, 2001).

Berger's analysis suggests that this story—to which she herself contributed (see e.g. Berger and Piore, 1980)—is no longer as valid as it once was. Not only do world trade statistics show unequivocally that trade in parts and components has grown faster than has trade in general, but the old rule of thumb in the high-wage world—hard stuff here, easy stuff there—is in doubt. There is ample evidence that the emergence of sophisticated manufacturing capabilities in China, India, Eastern Europe and Latin America is both cause and consequence of an increasing tendency for global value chains to rely upon producers in these lower wage regions for even relatively complex components, and that these components may well be in the middle of fragmented value chains. Indeed, reflecting this sense that the fragmentation of production today is first spatial and only then organizational, when the term 'outsourcing' is used in the news today it often refers not so much to the fragmentation of production across organizational boundaries, but rather to its fragmentation across spatial boundaries.

I certainly agree that a shift has occurred. To understand the change, however, I believe that it is useful to maintain a sharp conceptual distinction between 'outsourcing' and 'offshoring', using the former to denote the coordination of production across organizational boundaries and the latter to denote the coordination of production across distance. In *How We Compete*, Berger sometimes uses the terms as I understand them, but at other times she seems to use them almost interchangeably. In fact, they even share an entry in the index.

For many purposes, this is not a problem. It is certainly abundantly clear from the book that value chains are more fragmented spatially than they were just a few years ago. However, looseness with the distinction is not merely stylistic. It reflects, I believe, a problem rooted in Berger's claim that the key 'enabler' for this shift has been 'modularity'.

She defines modularity in her glossary of terms as the 'technological and organizational possibilities for breaking apart a production system that might once have been contained within a vertically integrated company and having independent companies carry out these functions' (p. xiv). By itself, modularity so-defined is plainly insufficient to explain the runup in offshoring. As already noted, the simple organizational fragmentation of production was at one time

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argued to underpin a resurgence of regional economies insofar as the local production of trust allows organizations to safely fragment value chains.

For the claim that modularity is an essential enabler of the contemporary runup in offshoring, Berger must thus rely—at times implicitly, at times explicitly—on a more precise understanding of modularity in terms of standardized interfaces that obviate the need for the 'more intimate forms of collaboration ... needed to tap the knowledge of the participants', thus allowing firms easily to spread production across the globe (p. 221). However, this also means that Berger need not really engage the concerns that the not-so-far-in-the-past literature on the organizational fragmentation of production had with the *character* of inter-organizational relationships. And this, I fear, leads us to misunderstand the role of complex forms of collaboration in a world of spatially fragmented production, which can in turn sideline analyses of options available to policy-makers hoping to find ways to respond to the challenges of globalization for producers in the high-wage world.

The issues come perhaps clearest in adjacent sections in the book entitled 'the limits of modularity: when outsourcing doesn't work' and 'when offshoring leads to more integration' (pp. 219–224).

In the former section, its title notwithstanding, Berger suggests that inadequate modularity undermines offshoring (but not outsourcing). She writes that 'if functions cannot be broken apart, they cannot be geographically separated' (p. 221). Yet she uses as an example Ulvac, a producer of vacuum technologies which has maintained vertically integrated facilities in Japan because there is no 'clean hand-off possible between R&D and commercialization'. This is interesting because Berger recognizes that although Ulvac has an integrated product architecture, they still outsource—but do so in a way that relies heavily on 'the skills of specialized suppliers ... and the meshing of Ulvac skills with the suppliers' skills'. In short, it is an outsourcing that *binds* them in place.

The latter section, in contrast, inverts the directionality in the relationship between offshoring and modularity. Berger notes that when multinationals set up shop in developing countries, they either tend to be more integrated than in their home countries, or they induce their parts suppliers to follow them abroad. Taiwanese MNCs in China seem particularly likely to surround themselves with the 'same Taiwanese companies [they] worked with back home. It seemed as if a fragment of home territory had been broken off and implanted in a new setting, but that all the old relationships continued more or less unchanged' (p. 223). In short, these firms neither integrate vertically nor do they rely upon a modular product architecture that would allow them to source from suppliers anywhere. Rather, they simultaneously offshore and outsource, but also take care to ensure that they will be able to manage

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interdependencies through collaborative relations with suppliers by bringing those relationships to China with them.

My point with these examples is that the ways in which producers combine integration, offshoring and outsourcing are at least as dependent on the character of their relationships to other organizations as on the degree to which product architectures are modular. (Indeed, the degree to which products are made modular is arguably itself dependent on the character of inter-organizational relationships.)

I am, I emphasize, not exactly accusing Berger of being wholly *inattentive* to the role of inter-organizational relationships. I have used examples from the book itself, and it is easy to find other places where she is admirably aware of their salience. She writes, for example, that 'closely knit-networks' are part of a 'Japanese industrial legacy' (p. 237) and suggests that these have made Japanese producers more likely than American producers to 'focus on the complementarities between integration at home and networks abroad' (ibid.).

My point is that because offshoring and modularity are treated as the same thing, it is essentially presumed that networks matter only locally and that when production moves abroad (which she expects to happens if/when modularity is achieved) they are essentially broken or, in the case of the Taiwanese, essentially reproduced. And this excludes—*a priori*—the possibility that firms which are participating in offshoring might in some cases be doing exactly what Ulvac was doing locally, namely trying to mesh their skills with the skills of producers abroad. Moreover, it does so in the face of good if fragmentary empirical evidence—including some in *How We Compete*—that some non-trivial proportion of offshoring does *not* involve modular product architectures. It depends rather on producers meshing their skills with the skills of suppliers abroad in ways that require some mechanism to coordinate the flexible recombination of multiple and changing production phases across not only organizational but also spatial boundaries—a meshing that makes it more likely that it will be what Berger refers to as 'intelligent outsourcing' (offshoring).

Saxenian (2002, 2006, p. 185), for example, writes of transnational communities and 'New Argonauts', describing 'social networks that enable even the smallest producers to locate and maintain mutually beneficial collaborations across great distances and facilitate access to foreign sources of capital, technical skills and markets'. Or at the cutting edge in studies of the 'delocalization' (offshoring) of phases of production in the Italian industrial districts, Bellandi and Caloffi (2006) find evidence that firms and associations of firms work with state actors to create collaborative networks that also include actors in the area of 'relocalization', thus creating 'trans-local public goods' that can encourage 'long-term relations and commercial, socio-cultural and institutional exchange between systems that are located in different national contexts but that are of similar or

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complementary profile in terms of production activities and processes of innovation'.

Berger even recognizes one such example of intelligent outsourcing, writing of producers in the Italian Veneto region who have built extensive ties to producers in Romania. Yet neither her nor other accounts of the case even hint that modularity matters; to the contrary, the evidence suggest that it is premised on a matching of complementary competencies across distance fundamentally enabled by the establishment of *institutional* supports, including the transplanting of key Italian 'lawyers, accountants, IT specialists and banks' as well as an office of the Veneto employers association (Berger, 2005, p. 242; see also Sammarra and Belussi, 2006).

So modularity does perhaps enable offshoring, but it is hardly the only or even the most interesting enabler (Whitford and Potter, 2007). Indeed, there is reason to believe that modularity is as much a consequence as it is a cause of patterns of inter-organizational relations that are themselves inseparable from social and institutional factors potentially amenable to policy intervention (Sabel and Zeitlin, 2004; MacDuffie, 2005). By placing a design principle that affects but does not dictate relationships at the centre of her analysis, I fear that Berger's framing directs attention away from the essential investigation of the ways in which closely knit networks have begun to jump spatial boundaries, and away from variation in the ways in which production that does jump boundaries is governed. Although there is a recognition that different companies have different approaches to modularity (and thus to offshoring), when Berger talks of legacies and location, she talks only of the 'human, technological and ideological resources'. In fact, companies also have *relational* legacies that shape not only their ability to compete, but also the way in which they *collectively* compete, and that—as in the case of the Veneto—can be co-opted by state actors hoping to ensure that key relationships are not destroyed and thus that operations that spread internationally do so 'intelligently'.

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Jonathan Zeitlin[1,2]

[1]Department of Sociology, Political Science, and History, Center for World Affairs and the Global Economy, Madison, WI, USA; and [2]La Follette School of Public Affairs, University of Wisconsin-Madison, Madison, WI, USA

Correspondence: jzeitlin@wisc.edu

Four years after its initial publication, *How We Compete* remains the best single book on the microeconomic dimension of globalization, viewed from the perspective of firms, industries and supply chains. I use it regularly in my teaching, as, I know, do many other colleagues across a wide range of fields from comparative political economy to international business. Beyond its lucid, accessible prose and compelling company vignettes, drawn from more than 500 interviews conducted by members of the MIT Industrial Performance Center, the book's appeal flows from the persuasiveness of its core message: that firms in the same industries and countries can succeed in the global economy by pursuing a variety of different business strategies. *How We Compete* substantiates this iconoclastic claim, which cuts across the predictions of both efficiency-driven convergence models of globalization and institutionalist divergence models based on national varieties of capitalism, by examining the strategies and performance of

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closely matched companies in the garment, textile, electronics, automobile and other industries of North America, Western Europe and East Asia. Some of these firms did little or nothing beyond design and marketing, outsourcing all or most production, often to offshore locations; some were vertically-integrated brand name companies that made both finished products and their components in-house, while others designed and produced components alone, still others specialized exclusively on manufacturing and many deployed varying mixes of these strategies (see especially Chapter 8). Not only did the MIT team find firms in the same industries, and often the same countries, successfully pursuing these divergent strategies, but also, as author, Suzanne Berger rightly warns, 'no one measure sums up all dimensions of performance, and the figures can change fast', as 'a company's fortunes can vary widely from year to year' (p. 49).

But strategic and organizational diversity is not the only significant empirical insight emerging from this study. Berger also builds a strong and convincing case that even in industries like garments, eyeglasses or electronics, where outsourcing and offshoring are widespread, 'solutions that depend on driving down costs by reducing wages and social benefits—in advanced countries or emerging economies—are always dead ends' (p. 53). Not only are the benefits of low wages often outweighed by other costs and risks, but also even in such labour-intensive industries, she provides detailed examples of companies in high-wage regions like northern Italy, Spain and Japan that have sustained high levels of profit and employment through continuous learning, innovation and flexibility, while combining local and offshore production in mutually complementary ways.

How We Compete wears its theory lightly. This is on balance an advantage which not only enhances the book's readability, but also prevents the argument from becoming too closely bound up with some of its problematic organizing concepts. One of these is *modularity*, the decomposition of complex products into distinct components based on standard technical interfaces or design rules, which enable customers and suppliers to coordinate organizationally separate stages of production through arms-length market transactions. Researchers from the MIT Industrial Performance Center have advanced strong claims about modular production networks as a new dominant industrial paradigm, spreading inexorably outwards from its initial beachhead in semiconductors and electronics to engulf the rest of manufacturing (for an influential statement, see Sturgeon, 2002, reprised in *How We Compete*, Chapter 4).

Much of the ensuing debate has underlined instead the limits of modularity, both qualitative and quantitative (for overviews, see Sabel and Zeitlin, 2004; Herrigel and Zeitlin, 2009). Qualitatively, two points stand out. First is the continuing centrality in many industries of 'integral product architectures', where the collaborative integration of interdependent subsystems is essential to ensure their smooth and safe interaction on the one hand and to develop distinctive and

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attractive new products under intense time pressures on the other. Second is the high risk for both design houses and component specialists of falling into a so-called 'modularity trap' (Chesborough, 2004) through over-commitment to a specific product architecture and set of technical interface standards, resulting in barriers to systemic innovation and loss of ability to participate in the development of the next new architecture. Quantitatively, the diffusion of modular production networks remains slower and more restricted than initially predicted. Even in electronics, contract manufacturers' share of the global cost of goods sold is still only 17% (*How We Compete*, p. 179), while a recent survey by Carliss Baldwin (2007), whose *Design Rules* (Baldwin and Clark, 2000) launched academic enthusiasm for the 'power of modularity', found no significant shift from 'vertical' to 'horizontal' industry architectures in semiconductors and automobiles over the past decade, and even some opposite movement in a classic modular sector, bicycles.

How We Compete acknowledges the limits of modularity in areas where 'the interface between functions cannot—or cannot yet—be modelled and standardized' (p. 219). But the book nonetheless presents modularity as a key technological enabler of globalization, which by separating design from manufacture allows firms to outsource and offshore production. This claim is doubly misleading since, as the experience of sectors like motor vehicles and mechanical engineering shows, integral architectures are no barrier to outsourcing and offshoring, while at the same time requiring ongoing collaboration between customers and suppliers in the iterative co-design of new products and production processes.

A second key organizing concept of *How We Compete* is *dynamic legacies*, the reservoir of human resources and organizational capabilities that firms have developed as a result of their distinctive historical experiences, which can in turn be recombined in multiple ways to meet new challenges (pp. 44–45). Berger uses this concept to reconcile the observable diversity of firm strategies with the enduring influence of national institutions, arguing that 'the home society has a critical shaping and conditioning impact on the legacies of companies', even if domestic practices and norms are more loosely connected and varied than the varieties of capitalism model suggests (p. 47). But this formulation raises more problems than it resolves. One concerns the ambiguity of the legacies themselves: if companies, as Berger acknowledges, have multi-dimensional legacies, which key actors may interpret in different ways, in what sense can these be said to explain their strategic choices? Antecedents are not necessarily causes, and there is a clear risk of retrospective rationalization in this approach.

Another problem concerns the link between such dynamic legacies and the notion of comparative institutional advantage, whereby different national institutional frameworks are believed to support distinctive patterns of productive specialization. Thus, the Japanese long-term employment and on-the-job

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training system is held to explain much of domestic electronics firms' reluctance to outsource and offshore production, while the decay of local technical design and production skills accounts conversely for the paucity of American companies pursuing comparable strategies of using home-based cellular production to capture market share by compressing product cycles (Berger, 2005, Chapter 10; see also Sturgeon, 2007). Yet these generalizations do not hold empirical water when we consider a wider range of sectors within each country. Thus, for example, automobile production in Japan was historically much *less* vertically integrated than in the USA, which has only caught up in terms of outsourcing over the last two decades (Kwon, 2005), while cellular manufacturing, cycle-time reduction and accelerated introduction of new products are today central features of American firms' strategies in complex mechanical industries such as agricultural and construction equipment, industrial machinery and heavy trucks (Whitford and Zeitlin, 2004; Herrigel and Wittke, 2005).

What research agenda follows from the stimulating insights and provocative analysis of *How We Compete*? Among the many possible lines of investigation opened up by this book, perhaps the most salient is the development of a deeper understanding of the roots and dynamics of distinctive firm strategies, focused on the interplay between their internal and external elements on the one hand and between their local and global dimensions on the other. Thus, for example, we need to know more that can be conveyed in relatively brief interviews and company vignettes about how coordination between different phases of design and production really works in flexibly integrated firms like Spain's Zara (clothing/textiles/retailing) or Kenwood and other Japanese electronics manufacturers, and how this differs from traditional forms of vertical integration, which depended on stable markets and managerial hierarchies. We likewise need more extensive knowledge of the conditions under which internationalization can complement rather than displace local, territorially rooted production networks, as in many (but by no means all) Italian industrial districts. In the questions that it raises as much as the answers it provides, *How It Competes* remains the best available entry point for studying the relationship between globalization and firm-level competitive strategies, which is no small achievement.

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Suzanne Berger

Department of Political Science, Massachusetts Institute of Technology, Cambridge, MA, USA

Correspondence: *szberger@mit.edu*

How We Compete is a book written to communicate to ordinary readers the best understanding that a group of MIT researchers could reach on the space for choice within the constraints of globalization. Best, in this case, means a point of common ground on matters on which the group was not in complete agreement. On some matters, the evidence from our cases was inconclusive, as, for example, on the future extensions of modularity. On others, the recommendations involved fundamental political convictions on which we differed, as for example, on the role government should play in the economy. Thus, *How We Compete* hewed to a kind of minimalist story. We believed that laying out our

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findings in this way was worthwhile, not because such an account of globalization was a complete one, but because out of the large number of cases we had studied, some clear findings emerged suggesting that firms operating under the same competitive pressures might succeed with very different strategies, with different outcomes for jobs, the location of activities and innovation. Given current anxieties about whether globalization constrains societies from keeping diverse and valued norms, practices and institutions, we thought these findings about actors under intense competitive pressures might provide insight into our common predicament. Considering the distance of *How We Compete* from normal scholarly modes of analysis and exposition, the willingness of Kathleen Thelen, Wolfgang Streeck, Josh Whitford and Jonathan Zeitlin to comment on this endeavour as a serious contribution to debates over globalization testifies to their great—and greatly appreciated—intellectual generosity.

Their comments reveal, above all, a keen awareness of the limits of an analysis of globalization that focuses in with tunnel vision on firm-level behaviour. I share some of their reservations. Other points they have made in the comments, though, seem to attribute to the argument more of a deterministic cast than its author ever intended, and I hope here, however belatedly, to clarify these issues, then to move on to consider how an account written from the firm level up relates to macro-analyses of capitalist development, and finally to suggest new questions about the role of the state in shaping fundamental choices on social and economic terrain that has been bulldozed over by liberalization and deregulation.

1. Globalization: drivers, enablers, critical cases

Some of the conceptual holes that the reviewers identify in the book have to do with the basic nature of the research project. The engineers and social scientists who started meeting 10 years ago at the MIT Industrial Performance Center to discuss globalization took for granted the existence and likely irreversibility of macro-level trends in the international economy: the liberalization and deregulation of trade, financial markets and labour markets, the emergence of vast new consumer markets, and the entry into the global economy of new competitors in developing countries, with large reservoirs of labour at various skill levels. We saw these as the big 'drivers' of change. Our own discussions focused, rather, on the translation of these macro-level transformations into changes in the organization and location of production. We were interested both in the processes through which these shifts in the global economy might be transmitted into changes in firm structures and behaviours and in the outcomes of these firm-level responses to increased global competitive pressures. Among the new 'enabling' mechanisms of change in the structures of production was modularization—

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the use of digital technologies to codify the interface between functions that once had to be carried out in close proximity in order to ensure conformance and quality. Modularity makes it possible to separate stages of production that had previously been integrated within single enterprises, to distribute functions around the world, and to coordinate the activities of multiple independent actors through supply chains, rather than within a vertically integrated enterprise.

As Jonathan Zeitlin notes in his comments, modularity is far from transforming the entire industrial landscape. In retrospect, our research group may have been so fascinated by the novelty of these technologies and by the possibilities they open for creating new companies in both advanced and developing countries and for coordinating production in multiple sites that we did not adequately recognize their limitations. Everyone in the research group could agree that in *some* industries and technologies, integral architectures would continue to dominate, but we could not resolve the crystal ball question of just how much of industrial organization across diverse sectors might eventually be transformed by modularity. We disagreed on an even more fundamental issue. In those sectors in which modular production had become an important option, would all firms have to converge on the same structures of production in order to compete successfully in the same markets?

The variant of convergence that we hotly debated in our group was a kind of technological–organizational determinism not very different from the notions at the heart of the controversies about Japanese lean manufacturing and the automobile sector in the 1980s. This model of convergence is of course only one candidate among a number of convergence theories, each of which has rather different properties and trajectories. But for our purposes, this plain-vanilla technological–organizational model had the great advantage of allowing us to specify the cases in which the pressures for outsourcing and offshoring should be greatest.

Outsourcing and offshoring are of course quite different, as Josh Whitford rightly insists (and, as I believe, *How We Compete* also emphasizes). Most outsourcing activities of American firms involve US-based suppliers and so have no particular connection with offshoring. And most offshoring—to judge by the responses of managers in multiple surveys carried out around the world—is driven above all by the objective of gaining access to a foreign market and by the need to produce in that market in order to sell in it. When a firm like Motorola makes cell phones in its own plants in China, it is offshoring production, but not outsourcing. When a firm like Apple has Foxconn (Hon Hai) make iPods in China, Apple is both outsourcing and offshoring production. Both outsourcing and offshoring were around long before modularity. But here again, modularity today plays a role as an 'enabler', making it possible for some activities (like semiconductor chip fabrication), which once had to be carried out in-house in

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vertically integrated firms, to be outsourced to independent Taiwan foundries, and possible, too, for more efficient coordination of activities across distance in ways that make offshoring less costly for firms that operate in more than one society.

The two industries in which we did most of our interviewing—electronics and garments—are ones which since the mid-1990s have had abundant possibilities for breaking apart research and development (R&D), design, detailed engineering, manufacturing, logistics, branding and service. By focusing on sectors and firms that were ones subjected to the greatest international competitive pressures and also ones technologically capable of hiving off functions in which suppliers at home or abroad could provide equally reliable (or better) products and services for the same (or lower) cost, we identified those hypothetically most likely to outsource and offshore production. Even for these firms and these sectors, it turned out, there was a great variety of different possible strategies. In consumer electronics, for example, there are very successful firms like Dell that outsource virtually everything except the crown jewels—those being Dell's distribution capabilities; and there are equally successful firms, like Samsung and Sony, making much the same products as Dell, that carry out much of the production in their own plants. For clothing, there are firms like Gap and H&M that outsource all production, while Zara continues to control a substantial part of its production in-house. If these firms that are the most vulnerable to the pressures of a global economy turn out to have a significant range of strategic manoeuvre in how to organize their activities and where to locate them, about which jobs to keep at home and which R&D to carry out in their own laboratories or in India, should we not imagine that actors in the rest of the economy—with more integral architectures or stickier resources or closer ties to consumers—would have at least as much latitude for choice? Why should we despair about the prospect that even under the new constraints of more global competition, our societies might still have considerable freedom to choose among the practices, values and institutions that we wish to preserve or create? Thus the 'good news' optimism, as Wolfgang Streeck has described it, of *How We Compete*. But could it be that while keeping our noses to the ground with our firm-level investigations, we like ants imagine that we are choosing our paths, while actually our direction and destination are already traced out by some macro-process, a meta-directionality invisible from the bottom up?

2. The inevitability of capitalism, the possibility of agency and choice

In opening up a space for choice by even those economic agents who are under the greatest pressure to compete with low-cost and well-qualified producers

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around the world, does *How We Compete* make room for agency only by jettisoning the theories and concepts that make sense of the long-term development of capitalist economies? Does allowing for openness in the evolution of societies operating under the constraints of globalization inevitably end up with a view in which anything is possible? Both Thelen and Streeck raise these points, although in different ways. Thelen focuses on theories of capitalism and starts from William Sewell's restatement of the Marxist claims about the inexorable logic of capitalism and its extensions across time and space (Sewell, 2008). Despite unpredictable twists and turns, 'hyper-events' and the contingencies of capitalism's fortunes at any particular moment and in any particular place, Sewell argues, 'we also need to recognize the strange stillness—what one might call a "stillness-in-motion" at the core of capital at its most abstract level' (2008, p. 526). Don't we have to acknowledge, Thelen asks, the large-scale processes and forces at work in capitalism? Is it not likely that what in any given frame-frozen moment of time appears to us to be actors choosing their course, will over a longer period turn out to be simple variations and oscillations around a societal trajectory with a fixed direction and course?

Sewell's 'stillness-in-motion' brings to mind John Maynard Keynes' familiar admonition to economists that 'this *long run* is a misleading guide to current affairs. *In the long run*, we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past, the ocean is flat again' (Keynes, 1924, p. 88). With Keynes, we can imagine that the 'long run' for capitalism, or globalization for that matter, is so far distant that the task for social scientists—once we resist the temptation to deduce the course of history from its hypothetical long run direction—is a more modest one. Perhaps the best we can do is to delineate the forces, constraints and contradictory possibilities within our current situation and, by patchwork more than by system, build up an understanding of them by testing partial, middle-range explanations against our observations of actors under common constraints struggling to do well. For an example of such an approach that moves between empirical research and theory building without support of any overarching meta-story about the direction of modern societies, one can do no better than to look at the way Streeck and Thelen themselves have analysed institutional change in *Beyond Continuity*. Here, the researchers focus on identifying the resources, the opening wedges, the strategies that actors exploit in implementing reproduction and change. They show that one does not need to believe that institutional change is heading in any particular direction to be able to identify the multiple—but not infinitely multiple—pathways along which actors may move and to examine systematically the constraints and incentives that encourage them to make one or another set of choices.

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With Keynes, again, we might also think that such a mid-range intellectual agenda has a useful, normative aim, especially in 'tempestuous seasons' like the present one. By casting as bright a light as possible on what people believe to be economic imperatives and inevitability, we can help distinguish between those domains in which constraints are so heavy that the range of possible action is truly narrow and those domains in which choice, collective action and political will can make a difference. At a minimum, our research can try to reduce the realm of false necessity.

3. What governments can do

To identify a space for choice is still to leave a blank about the relations of power within it that determine whose interests will win out in the public sphere. While Streeck does not refer to 'the stillness-in motion' of capitalist logics, he does still suggest that capitalist societies are moving in ways that profoundly alter the balance of power between 'profit-seeking capitalists of all sorts on the one hand and politically organized community-seeking human beings on the others'. Open borders for trade and capital have forever altered the balance of power between capitalists who can exit taking their resources along with them and ordinary human beings who are attached to their families and communities. Under these circumstances, in Streeck's view, public policy inevitably becomes a competition to offer various incentives (lower taxes, better-qualified workers and subsidies) to firms to encourage them to remain in territories they might otherwise abandon. Secondly, public policy is also required by capitalists in order to prevent public backlash against globalization and open borders by providing the kinds of supports (national health systems, portable pensions and vocational retraining) that make living in an open economy tolerable. But there is little else that a fiscally constrained state—with few or no controls over its borders—can achieve. Put another way, the lessons that one might hope to derive from *How We Compete* about the realm of choice within capitalist societies under globalization may be relevant for appreciating a wider range of possibilities for enterprises than is conventionally accepted, but they do not translate into a wider range of policy choices for public action on behalf of society as a whole.

Streeck's perspective opens a whole new set of questions about how to interpret and compare the post-war historic compromise between capitalism and democracy and today's arrangements. Were the post-war policies to protect social peace, shrink political extremism and anchor the legitimacy of states battered by war, defeat and depression so very different from the policies that today are seen as necessary to prevent backlash against globalization? Has the burden of paying the bill for these policies shifted as drastically as Streeck suggests? A considerable political economy literature suggests that mobile firms value some nationally sticky

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resources so highly that they remain even in high tax environments. France, for example, has among the highest corporate tax rates in the world, but it is also the third largest recipient of foreign direct investment. These and other puzzles about the locational decisions of presumably highly mobile firms and the shifts in public policy remain prime targets for social science research.

For anyone who thought that global corporations had disconnected their fortunes from those of their societies of birth, the events of the past year have provided some surprises. Corporate leaders like John Reed (Citicorp), Jack Welch (General Electric), Maurice Greenberg (AIG) and Samuel Palmisano (IBM) have over the past 10 years enthusiastically described their organizations as 'globally integrated enterprises', ones whose headquarters might for 'historic' reasons still reside within the USA but which had become as much Chinese or German or Indian as they were American (Palmisano, 2006). Echoing the scholars who have traced out a borderless world of mobile capital, these corporate leaders insisted they owed no particular debts to one society or another and that all activities within the company should flow to 'wherever the work can be done best'. While few major corporations actually shifted headquarters out of the United States (as Halliburton did in 2007 to Dubai), the rhetoric of the past decade suggested there was no reason in principle to keep any particular part of a corporation in its native land.

Suddenly, however, over the past year it has become a lot clearer who belongs to which country and why they are likely for the foreseeable future to remain there. American tax payers bail out American banks and insurance companies (including those of Messrs Reed and Greenberg) and automakers (and others yet to be determined). Beyond our shores, the British use anti-terrorism legislation to freeze Icelandic assets to guarantee the deposits of British citizens who placed their savings in Icesave, an Icelandic internet bank. The French government promises aid to fund French automakers—on the condition that they do not offshore any more production, and so on. We have yet to see whether US government stimulus funds that for, say, bridge building, will require American-made steel and American construction companies or whether any company providing jobs in the USA might do. But it is evident that it matters greatly for 'profit-seeking capitalists' as well as 'politically organized community-seeking human beings' whose national borders they happen to be within.

What the crisis reveals is not just a 'return of the state' to rescue firms located on national territory; it reveals as well how nationally sticky the character of operations that were taking place all along in the golden years of expansive global financial markets was. Consider, for example, the accounts of those involved with Lehman Brothers in its last days, as teams of accountants, lawyers and 'restructuring' specialists tried to nail down Lehman assets in their own national territories to save them from capture by US creditors in bankruptcy proceedings (Hughes, 2008). Depending on where Lehman's assets and liabilities were located, different national

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bankruptcy laws would determine their distribution. But even before those legal scenarios could play out, the London team discovered there was no cash on site, because every night, Lehman, like many other global corporations, swept back to headquarters the funds on hand in its regional subsidiaries. The day before disaster hit, Lehman's European division in London had transferred $8 billion to New York headquarters. Even as the contagion effects of the crisis spread around the world and demonstrated the global connectedness of the financial system, the national identities of creditors and debtors have emerged in ever sharper relief.

Does the shift in the balance of power between public authorities and capitalist enterprises that the crisis has produced represent anything more than a parenthesis before the triumphant advance of the market resumes? Are the bail-outs and the massive stimulus programmes yet more evidence of state capture, or do they offer some real points of leverage for a politics of regulation and redistribution? Can limits on executive compensation and the fiscal reforms of a mildly progressive new democratic administration serve as the opening wedge for reforms to narrow the great income inequalities that have opened over the past 15 years in the USA between those at the very top of the ladder and everyone else? Or will they remain limited efforts destined to legitimate the greatest ever transfer of public resources into private hands?

These questions go far beyond any that the minimalist political agenda of *How We Compete* ever contemplated. But then, who could have imagined a world in which governments in liberal market economies, like those in coordinated market economies, would be nationalizing major global corporations?

The comments that Thelen, Streeck, Whitford and Zeitlin provided on *How We Compete* were written in summer and early fall of 2008, before the full force of the financial crisis and the economic collapse hit. It is striking on reading them now (January 2009) that they retain all their interest, not only as commentaries on a particular book, but also as statements about the requirements for a new agenda for political economists working on globalization. In trying to lay out such an agenda, each of these comments grapples with a way of reaching outside of the 'varieties of capitalism' framework.[1] By systematically identifying and analysing different forms of market economies, 'varieties of capitalism' enabled an enormous advance beyond neo-classical understandings of market economies. Its account of alternative institutional equilibria and institutional complementaries allowed us to comprehend the various arrangements by which liberal market and coordinated market systems stabilize and reproduce themselves. Indeed, these models of 'liberal market' and 'coordinated market' economies have shaped academic and popular visions of contemporary societies so that one can hardly think at all

[1]The key texts are Hollingsworth and Boyer (1999), Kitschel *et al.* (1999), Hall and Soskice (2001) and Streeck and Yamamura (2003).

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without these categories. As we struggled in our research group to account for the kinds of diversity we were discovering in corporate responses to global pressures, we found we could not do without the concepts that 'varieties of capitalism' provides for understanding the human and material resources available to firms as collective creations generated by particular kinds of societies. We eventually conceptualized the collective national resources differentially available to firms located in liberal market or coordinated market economies as *parts* of firm legacies. Because legacies are composed of disparate, even contradictory, elements, they are a reservoir of diverse possibilities for policymakers. This attempt to accommodate some of the insights of varieties of capitalism without its constraints may not, however, be wholly satisfying, for the reasons the reviewers have noted.

The problem is that all work in the social sciences involves trade-offs and the willing acceptance of blind spots for the sake of seeing other critical zones in sharper focus. As the comments of Streeck, Thelen, Whitford and Zeitlin illustrate, even without explicit reference to 'varieties of capitalism', its understandings have come at a cost. Issues about choice, agency and the dynamics of change were left on the back burner. Varieties of capitalism illuminated with extraordinary clarity the institutional equilibria of different capitalist systems. But it also left us with unanswered questions about historical origins and pathways, the direction of change and politics that are now again rising to the fore. The current crisis is the most powerful of reminders that these are not only debates over theoretical models but also over the range of possible options for the reconstruction of society.

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