Book Review

The Economic Sociology of Capitalism
Victor Nee and Richard Swedberg (eds),

Comparative economists have gradually concluded that success or failure in transition to democratic capitalism is a matter of institutions, not geography or leadership or outside assistance. However, why do some countries exhibit pro-growth institutions, with little corruption or rent seeking? And how can we explain the relative successes of very different forms of capitalism, such as the USA, the Netherlands, Ireland, or mid-20th century Japan?

A group of sociologists, intellectual descendants of Neil Smelser and Robert Merton, present some indirect answers in this volume. Dissatisfied with Douglass North’s initial conception of institutions as disembodied rules (including incentives) which will yield efficient outcomes, they propose a concept of social structure (networks) through which actors pursue their interests, sometimes erroneously, but need not attain an efficient income (p. 56). New institutions are not simply reactions by the state to a changed environment; and old organisations resist change unless and until conflict forces them to adapt. Furthermore, North and others are criticised for emphasising growth alone as the metric of development, since that narrow goal will inevitably favour the power of capitalists. Rather, Amartya Sen’s capability approach – people leading lives ‘they value … and have reason to value’ – requires broad democratic deliberation on optimal social choices.

Another paradigm for institutional analysis is recommended by Avner Greif, who wrote an introduction to this book. Greif believes that game theory allows economists to insert considerations of beliefs, information, and interaction into an empirical account, as he has done elsewhere for the Mediterranean traders of the Middle Ages. For Greif institutions are ‘social factors’ which impose themselves on individuals and generate a regularity of behaviour, reinforced by repeated transactions.

This compendium contains several applied contributions of special interest to comparative economists. According to Victor Nee, economists who advocated a shock therapy for ex-socialist economies thought they could impose a new set of rules or institutions, but this gambit was ineffectual because it ignored the ‘realities of power and interests in institutional
arrangements (xxxix)’. In the People’s Republic of China, a trial and error process since 1978 has produced a realignment of interests and new organisational forms. In particular, Nee shows in a key chapter, private and village enterprises have been more efficient than for existing state-owned firms operating under new rules. The Company Law of 1993 seemed to establish state capitalist governance – for example, an independent board of directors and shareholder rights – which would supposedly generate high profits for the state. After all, at that time, 70% of central revenue came from state-owned enterprises. However, interference by the Communist party in enterprise affairs and informal cliques operating according to ‘oppositional norms’ frustrated the reforms imposed by Beijing. For example, managers used profits to build worker housing and to continue salaries to furloughed workers. Late arrivals and early departures from work were tolerated. Employees used state equipment and structures for side projects, when they did not simply sell them off in asset-stripping. The result has been chronically declining net profits in China’s state-owned enterprises and the accumulation of non-performing loans by China’s nationalised banks totaling more than $500 billion.

The role of government has long been recognised in East Asia. Mary Brinton’s article makes the case that Japan’s long-term ties between schools and firms may have worked before the 1990s simply because of high labour demand. During the subsequent stagnation, however, her surveys show that graduates of lower quality high schools suffered from high unemployment, turnover, and idleness. Other famed Japanese institutions like the keiretsu, permanent employment, and share payments schemes should also be examined since the period of high growth.

In an important contribution, John L Campbell shows how national patterns of taxation within OECD countries have been resistant to convergence. Despite the pressures of globalisation, mean tax rates increased from 1970 to 1998. Liberal, Anglo-Saxon states relied more than ever on income and profits as a tax base (54% in 1998), while the Christian Democratic states of Continental Europe used these taxes for only 24%, preferring much higher social security taxes. Scandinavian social democratic states, by contrast, had by far the highest share of taxes on goods and services. Campbell makes the crucial point that ‘coordinated market economies’ in Western Europe are characterised by strong unions and business organisations which accept high tax rates supportive of development, welfare, and training programmes. Where coalition governments rule with a dominant partner, as in Sweden, the high-tax pattern is reinforced, as opposed to shifting coalition or majority-party politics. Campbell argues that newly democratic East-Central European states have imitated the tax systems
of Western Europe under the influence of international financial institutions and academic experts.

Government support of corporate development has been important in USA, Germany, Japan, and many other countries. Neil Fligstein contends that public investments in training, health, and research and development have been more favourable than short-run emphasis on 'shareholder value' realisable in the stock market, even in the cases of Silicon Valley or of the industrial districts of the Po Valley and Bavaria, where 'flexible specialisation' was supposedly the key institution.

Several other more specialised articles include AnnaLee Saxenian’s on returnees' role in Chinese computer chip-making, GF Davis and C Marquis’ on globalisation of corporate governance, and Paul DiMaggio and Joseph Cohen’s on the international diffusion of television and the internet. Economists with interests in these areas should check out relevant parts of this high-quality compendium.

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