



Losing Time: The Industrial Policy Debate.

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based on theory, with a modest dose of the sort of evidence common to financial economics, and are generally persuasive as far as they go.

Much can be made to follow from the proposition that share price effectively tracks a firm's income-producing potential, and a good case can be made for a functionalist explanation of the structure of firms as webs of contracts. But it is far easier to argue that firms that fail to compete are "ground under the heel of history" than that laws or governments are: selection mechanisms and falsifiable propositions are hard to come by. Firms can incorporate in any state they choose (most large ones choose Delaware), and thus states compete for corporate charters, but the sums available from chartering corporations are not large enough to induce much competition, unlike more substantive corporate decisions such as plant locations. Still, by hypothesis managers have incentives to incorporate in states that provide laws that maximize shareholder wealth. Federal law poses a more difficult problem for this line of argument—legislators, regulators, and judges are not selected out for failing to maximize shareholder value, and it is far from clear why federal corporate law should have evolved to its current beneficent state. In addition, as is often the case with functional arguments, it is difficult to find situations that could falsify the authors' basic claims about the efficiency of corporate law. They admit one anomaly themselves: laws that make takeovers more difficult are bad from their perspective (takeovers allow good managers to seize control from bad ones, to the benefit of shareholders), yet at least forty states (including Delaware) have adopted them in the past ten years, largely as a result of lobbying by business. Presumably, in the long run these states will be ground under as wealth-maximizing firms flee to states that allow unlimited takeovers. Given that a large majority of major corporations have provisions to prevent themselves from being taken over, however, a corporate diaspora seems unlikely.

Despite its limitations as social science, *The Economic Structure of Corporate Law* (particularly the first chapter) provides an elegant and reasonably accessible introduction to the most influential segment of the law and economics school. Mercifully, the au-

thors write like lawyers rather than economists. Given the policy influence of the authors (their arguments are cited in U.S. Supreme Court decisions, and Easterbrook is a U.S. Appeals Court judge), sociologists interested in catching up with the latest thinking on the theory of the firm and its relation to corporate law will find this the best available source.

Losing Time: The Industrial Policy Debate, by **Otis L. Graham, Jr.** Cambridge: Harvard University Press, 1992. 370 pp. \$29.95 cloth. ISBN: 0-674-53919-2.

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Otis Graham's *Losing Time* is an ode, in three parts, to industrial policy. In the first part, Graham reviews the U.S. "industrial policy" debate of the early 1980s, culminating in Congress's 1984 decision against national industrial planning, which was reinforced by Reagan's landslide second-term victory. Graham points out that nowadays most other countries have industrial policies—state planning for sectoral growth coupled with public incentives for targeted sectors—and argues that the United States failed to adopt one in the 1980s in part because Reagan opposed planning and in part because of the lessons Americans took from history. Graham's special contribution is an analysis of how participants in the debate over industrial policy (IP) used, and misused, history to construct arguments.

The second section reviews the events of the second half of the 1980s and is best summed up by the chapter title "America's Unconscious Industrial Plan." The United States has always pursued an industrial policy, but without a deliberate, coherent plan. The nation's revealed, small-case industrial policy is to be found in a potpourri of inchoate tax, trade, military acquisition, and state and local growth policies. The third section of the book focuses on how the lessons of history have been misused by opponents of IP, and makes a case for reevaluating the current piecemeal industrial policy and developing a coherent growth strategy. In practice, the United States has an industrial policy. Better to admit it and use IP

to our advantage than to pretend it does not exist.

This book is a refreshing addition to a field dominated by professional journalists with uneven standards of scholarship. Graham, an experienced practitioner of the historian's craft, reports the results of careful research in prose that is a pleasure to read. He composes a compelling argument that the opponents of industrial policy have misread history. Readers skeptical of public intervention in the economy will learn that interventions, here and abroad, often have met with considerable success. Graham argues convincingly that the public resources directed to industrial promotion will not be effectively used until the United States, at a minimum, takes stock of existing policies and evaluates whether they work.

Losing Time undertakes two scholarly tasks. It is at once a history of public policy, which focuses on the 1980s but delves into a number of earlier episodes, and a history of ideas. As the title suggests, Graham is somewhat of a proselytizer who believes that the United States will not regain international competitiveness until it embraces the broad kinds of policy instruments that have met with success in Japan and, to a lesser extent, France. Graham's task is not unlike that undertaken by Andrew Shonfield a generation ago in *Modern Capitalism*. Yet where Shonfield saw industrial policy as inevitable, Graham worries that the United States has missed the boat.

A historian with a mission, Graham covers a wide range of social science theories about the role of the state in economic life. He reviews with clarity and insight the ideas of the main thinkers who favor IP, although he sometimes treats the ideas of free marketeers less seriously. However, Graham depends more on storytelling and rhetoric to convince the reader of his case than on the kind of systematic comparative analysis that a social scientist might have, for better or worse, brought to the same task. As a result, Graham has some difficulty in demonstrating that a U.S. industrial policy would meet with success, as in Japan, rather than with disaster, as in Britain. The prima-facie case for the second outcome is difficult to overcome. Since the early 1960s Britain's industrial plans have produced misguided government bailouts for hopelessly declining industries,

and little else. Political sociology's conventional wisdom suggests that American state structure is better suited to inchoate, misguided bailouts characterized by political graft than to coherent, disinterested, industrial planning on the Japanese model. Even this sympathetic reader finished the book with some concerns.

Graham's history of the IP debate of the 1980s is thorough, dense, and provocative. Because Graham takes pains to explain theories and debates clearly and eloquently, the book should appeal to the uninitiated. Because Graham's analysis is both comprehensive and insightful, the book should appeal to the experienced policy analyst who is already immersed in the debate. *Losing Time* asks why an idea whose time had come was not taken up in the United States during the 1980s. The answer challenges the way in which history is used to inform policy decisions. The book thus should be of interest not only to followers of industrial policy but also to a wider intellectual public interested in the history of ideas. Yet because it begins with the premise that industrial policy *is* an idea whose time has come, *Losing Time* may do a better job of preaching to the converted than of converting the skeptic.

The Changing U.S. Auto Industry: A Geographical Analysis, by **James M. Rubenstein**. London: Routledge, 1992. 318 pp. \$63.50 cloth. ISBN: 0-415-05544-X.

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Perhaps more has been written about the automobile and its industry than about any other product or industry in the United States. James M. Rubenstein's *Changing U.S. Auto Industry* is an important contribution to this literature. Two things distinguish Rubenstein's book from other works on the U.S. automobile industry. First, instead of focusing on what have typically been the main concerns in the analysis of the industry such as car lines, firms, management, or the organization of production and marketing, Rubenstein focuses on locational shifts in U.S. automotive plants since the inception of the industry. Second, he does not see the most recent spatial restructuring of automotive