THE EVOLUTION OF GOVERNANCE REGIMES

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Traditional scientists have produced a massive literature about transformations in the organization of economic activity from which we can identify five general theoretical traditions that seek to identify the key determinants of governance transformations. These enable us to specify more precisely the simple model of the governance transformation process that we presented at the end of Chapter 1. This model suggested that the transformation process occurs when pressures for change develop and cause actors to reach within certain limits for an alternative combination of governance mechanisms, which we called a new governance regime. In this chapter, we describe these five theoretical traditions, or models, derive from them a new evolutionary model of governance transformation, and assess the new model in light of the evidence provided in our case studies. Finally, we explore the implications of this analysis for debates about the long-term institutional development of advanced capitalism.

FIVE MODELS OF GOVERNANCE TRANSFORMATION

Economic efficiency

Economists typically attribute governance transformations to shifting economic conditions, including variations in the supply and price of production factors, fluctuations in demand, and other things that inhibit firms operating efficiently, that is, maximizing output with a given set of inputs. Within this tradition, it is assumed generally that governance through markets is the norm (e.g., Alchian and Demsetz 1972), but that alternative gover-

1 As is often the case in exercises, such as this, that seek to address debates between broad paradigms, rather than the nuances within them, the models that result appear to be neat and tidy, when in fact they actually conceal sharp disagreements and debates among those who subscribe to each one. Inevitably, this is the case here due to the sheer volume of literature that is involved, only a sampling of which is actually mentioned. However, we try to address some of the more important debates that exist within models in the text and footnotes wherever relevant.
nance mechanisms will develop when markets fail to operate efficiently. For example, actors may build corporate hierarchies when they perceive that market pricing has become an inefficient way of coordinating transactions (Coase 1937) or when they believe that economies of scale may be achieved (Scherer 1970: 81) — a goal that may also lead to the creation of obligational networks, such as joint ventures (e.g., Pfeffer and Salancik 1978: 153). Oliver Williamson (1975, 1985) developed one of the most sophisticated explanations of governance transformations within this tradition. He argued that when the costs of conducting and monitoring transactions through the market become excessive, because they involve the recurrent exchange of products whose manufacture requires substantial investments in idiosyncratic factor inputs (high asset specificity) and, therefore, small numbers bargaining, actors will turn to alternative governance arrangements that reduce these transaction costs. When the frequency of exchange and level of idiosyncratic investments are high, he argued, actors will replace markets with hierarchies. When the frequency of exchange is high but the level of such investments is moderate, they will turn to less stable subcontracting relations among a few firms (Williamson 1985) — another example of an obligational network. In either case, the alternative to market contracting is an allegedly more efficient form of governance. Thus, unless noted otherwise, efficiency refers throughout this chapter to the capacity of transacting organizations within the production system to obtain the resources they need and information they need and to manufacture their products at the lowest possible cost.

In addition to arguing that economic inefficiencies create pressures for changing existing governance regimes, this tradition assumes that the most efficient form of governance eventually emerges. Hence, as discussed in Chapter 1, not only have others criticized this perspective for ignoring that market-based governance may be transcended for reasons unrelated to efficiency (e.g., Perrow 1986), but also for relying on a functional logic to explain which specific governance mechanisms finally emerge in different situations — a logic that is flawed insofar as it maintains that the most efficient mechanisms eventually develop simply because they are the most efficient (e.g., Robbins 1987). This difficulty reflects, and perhaps stems from, the fact that adherents to this tradition, such as Williamson, fail to incorporate into their analysis a rigorous account of the search process, wherein actors decide how to solve their economic and organizational problems.²

² Criticisms of this view abound. For example, see Nelson and Winter (1982) and Hodgson (1988), who challenge the orthodox rational-choice model's neglect of the decision-making constraints that actors face that are posed by bounded rationality, organizational routines and inertia, political and legal frameworks, and other organizational and institutional obstacles.

³ For an attempt to infuse orthodox economic accounts of governance transformations with an organizational analysis of the search process, see Nelson and Winter (1982).
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Technology development

Ever since Marx argued that changes in the forces of production created possibility for shifts from capitalism to socialism, observers of economic theory have recognized that technological developments often contribute to governance transformations. Alfred Chandler (1977), for example, argued that the revolutions in transportation and communication technologies that occurred in the United States during the nineteenth century fostered rapid growth in markets, mass-production technologies, and, thus, the creation of modern industrial hierarchies with which capitalists could more efficiently stabilize and exploit these markets and technologies, respectively. Following Chandler, others argued that mass-production technology tends to produce long hierarchies and bureaucracy, whereas craft-production technology often yields more subcontracting and short hierarchies, reminiscent of our obligatory networks (e.g., Caves 1980; Stinchcombe 1983: 111–15; Piore and Sabel 1984).

Whereas the development of new technologies is generally viewed as a pressure for change that triggers a search for new governance arrangements, efficiency criteria are often offered to explain why one form of governance emerges from the search rather than another. This is an important parallel with economic arguments and is perhaps most obvious in Chandler’s (1977) work, where he argued that hierarchies are most likely to develop in mass-production industries because they are the most efficient way to organize the scheduling and flow-through requirements of such production technologies. Similarly, he maintained that associations frequently preceded the emergence of corporate hierarchies, but were short-lived largely because they were unable to manage efficiently the problems associated with mass production and distribution (Chandler 1977: Chap. 4). Similarly, although recognizing the importance of political and other struggles around the creation of governance arrangements, and, therefore, offering a more multidimensional account than Chandler’s, Michael Piore and Charles Sabel (1984) suggested that with the advent of computers and numerically controlled machines, we have the opportunity to create more decentralized, flexible economic institutions, akin to our obligatory and promotional networks, that can adapt more effectively to the shorter product cycles and other instabilities of the late-twentieth-century world economy.

4 Chandler’s argument is not entirely removed from the economic tradition insofar as he argued that, with the advent of these technological breakthroughs, existing markets were unable to handle the scheduling and distribution problems associated with new mass-produced goods. Hence, he also incorporated a market-failure model into his analysis.

5 The linkage between technological and institutional developments, on the one hand, and efficiency, on the other, is deeply rooted in much of this literature, often penetrating to the definition itself. According to Arthur Stinchcombe (1983: 93), technology is not just gadgets, inventions, and other things, but rather patterns of activities that influence, or are
We are not suggesting that this literature succumbs to crude technological determinism. In fact, deliberate attempts are made often to avoid such pitfalls while establishing the causal links between changing technologies and institutions. At least passing reference to the important role of the state, class struggle, and other factors in determining institutional outcomes is common (e.g., Torstendahl 1984). Even Chandler (1977: Chap. 4) recognized that the replacement of federations and pools by corporate hierarchies during the late nineteenth century was premised in part on the lack of support from the state for these more collective forms of governance. Piore and Sabel (1984) recognized that technological change simply created the opportunity for governance transformations, and that political and other struggles would ultimately determine which technology and accompanying set of governance mechanisms actors would select.

Yet it is the effect of technological change that these scholars theorized, not these other influences. Hence, the emphasis on the technological determinants of social organization is unmistakable, but also because this literature tends to pay much less attention to the processes whereby actors, responding to new technological possibilities, or pressures for change, actively search for alternative governance arrangements through which to realize these possibilities—a second parallel with the economic tradition, discussed before. Ann Markusen (1985), for example, developed a fascinating argument about how technological and product innovations typically drive an industry’s profit cycle and, thus, transform its governance arrangements. She argued that the initial, unprofitable stages of innovation foster lots of small-firm subcontracting, or obligational networks, that give way first to intense market competition, as the innovation becomes very profitable, and then to corporate hierarchies, as weaker competitors exit the market and barriers to entry develop. Later, as new innovations cut into existing markets, profits sag and actors begin to deconstruct hierarchies and resort once again to subcontracting. Associations play a greater role in trying to prevent further industrial decline. However, she paid very little attention to the processes by which actors who face these technologically driven profit cycles decide which governance arrangements to adopt.

In thought to influence, the effectiveness or efficiency of the use of things for achieving certain goals—a definition that is reminiscent of Schumpeter’s (1983) claim that economic development is largely the result of entrepreneurs who combine available resources in innovative ways.

6 Although Chandler, for example, recognized the state’s role in undermining collective governance arrangements, his theoretical discussion does not address the state’s role at all (e.g., Chandler 1977: 6–12, 484–90).

7 The presumption that technology is the primary, but certainly not the only, force behind governance transformations is clear insofar as a host of additional variables are discussed in this literature as modifying the effects of technology. For example, many who work within this tradition have recognized that the extent to which technological change leads to the replacement of markets with hierarchies is influenced by such things as product type,
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One of the most common criticisms of Chandler's work is that he tended to neglect the struggles that occur over the selection of governance arrangements in different industries (e.g., Perrow 1981).

Power and control

In contrast to arguments about economic efficiency or technological change, a third tradition maintains that governance transformations occur when actors try to increase their power and control over each other and whatever resources and information they deem to be important for their economic survival and prosperity. For example, some have argued that firms build corporate hierarchies through horizontal mergers in order to reduce and control market competition (Scherer 1970: Chap. 4; Perrow 1981, 1986: Chap. 7), and through vertical integration to minimize the degree to which one firm depends on another for key resources (Aldrich 1979; Pfeffer 1987). They have also maintained that firms create corporate interlocks (monitoring), joint ventures (obligational networks), and more formally organized collective governance mechanisms (promotional networks and associations) to better manage various types of resource interdependencies (e.g., Pfeffer and Salancik, 1978: 152–7; Aldrich 1979: Chap. 12; Pfeffer 1987). In this literature, power generally refers to the capacity of an organization to extract for itself valued resources, including wages or profits, and information in a system where other organizations seek to do the same thing for themselves, or to otherwise control the behavior of other organizations within the system (e.g., Perrow 1986: 259).

According to this tradition, because the desire to gain power and control, and to avoid becoming the object of another's power and control, is the critical impetus for change, it is easy to see that actors will struggle among themselves over the formation of new governance arrangements, particularly to the extent that governance transformations will institutionalize new power relationships. The frequent zero-sum nature of these relation-

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8 The resource-dependence school has also recognized that there are important modifying variables to consider. For example, Pfeffer's (1987) review of the literature indicated that if controlling competition was the goal, industries with many firms simply relied on the market to regulate competition, industries with a moderate number of firms employed extensive corporate interlocking, and industries with only a few firms relied on oligopolistic price leading. For further discussion of how the degree of organizational leadership, the level of organizational homogeneity, the use of positive and negative incentives, and ideology modify the relationship between resource dependence and governance transformation, see Aldrich (1979: 319–21). For criticisms of the resource-dependence school from within the power and control tradition, see Mintz and Schwartz (1985: Chap. 2).
ships means that one actor’s gain in power will often come at the expense of another.9 Hence, in addition to offering additional insights about what may constitute pressure for changing existing governance arrangements, this tradition creates a broader analytical space for understanding the search process itself than either the economic or technology traditions that tend to lapse into arguments that confuse efficiency with causality. This is not to say that the power and control position does not have problems of its own. Williamson (1981: 572–3), for example, charged that proponents of this tradition had not developed a precise, multidimensional definition of power that would permit researchers to determine when power did or, more importantly, did not influence organizational changes. Some of the more radical representatives of this tradition, who have suggested that power and control tend to accumulate in increasingly centralized organizational forms, have difficulty explaining why hierarchies are not found everywhere (Perrow 1986: 241). Nevertheless, the merits of this perspective are clear insofar as understanding the search process is concerned and how the balance of power among the actors involved helps determine the institutional outcomes of the search.

**Culture**

Karl Polanyi (1944: 46) argued that “man’s economy, as a rule, is submerged in his social relationships.” More recently, sociologists have reminded us of this by arguing that the determination of governance arrangements is due as much to cultural and ideological factors, including norms, values, levels of trust, and so on, as it is to economic or technological imperatives, or struggles over power. Michel Crozier (1964: 312) claimed that values and cultural trends influence the form of hierarchy that emerges in different countries, and that as these cultural attributes change, so does the nature of hierarchy. Cultural explanations of institutional structure have proliferated in the literature on organizations (Smircich 1983) and have proven useful in explaining the conditions under which actors organize themselves inobligational and promotional networks, rather than hierarchies, where Williamson would have predicted otherwise (e.g., Lazerson 1988). Mark Granovetter (1985: 503), for example, suggested that when the economic conditions exist for the development of transaction-cost problems, hierarchies are not likely to develop if there is an already well-established network of personal relations that mitigates against opportunism and malfeasance among economic actors. Thus, he maintained that both Williamson and Chandler had adopted “undersocialized” views of

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9 This assumes that economic exchange rarely occurs between actors with equal power—a fundamental departure from theories that are rooted in the economic efficiency tradition, and a point stressed by others (e.g., Etzioni 1988: xii).
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Economic activity that neglected the importance of trust in economic transactions, particularly insofar as the creation of obligational networks is concerned. 10 Others have shown that a common cultural background also contributes to the development of certain forms of monitoring arrangements, such as class-based social clubs, through which economic and political activity may be coordinated tacitly (e.g., Domhoff 1974, 1983).

The point is not that representatives of this tradition believe that cultural arguments should replace entirely economic and other explanations of governance transformation, but that they should complement them. Geoffrey Hodgson (1988: 156), an ardent critic of orthodox economic explanations of institutional change, including transaction-cost theories, suggested that "the basis of [exchange] agreements is not simply the rational calculation of abstract individuals with a view to their perceived costs and benefits; it is a combination of both formal legislation and legitimation, and inherited custom and tradition of a less formal kind." Yet the use of culturally focused arguments has been criticized for failing to define precisely what is meant by culture (Smircich 1983) and for failing to clearly specify the mechanisms that link cultural conditions with the development of specific governance mechanisms. This later criticism has been especially pronounced in studies that seek to determine how different national economic structures emerged in countries sharing similar cultural traditions (e.g., Hamilton and Biggart 1988). 11 Indeed, this suggests that cultural explanations also tend to overlook the search process through which culture may affect governance transformations.

State policy

Hodgson's point that economic activity is embedded partially in a political context is important and has been reiterated by others who have noted that governance transformations are caused, at least occasionally, by shifts in legislation and other state policies. Some have gone so far as to argue that the primary source of governance transformations is the state itself, such as those who have claimed that changes in the definition and enforce-

10 For further discussion of the important effects that trust and other relatively subjective factors play in the organization of economic activity through obligational and promotional networks, see Macaulay (1963), Ouchi (1977, 1980), Eccles (1981), and Lorenz (1988), all of whom contribute directly to the criticism of more orthodox economic explanations of these governance transformations. For further criticisms of Williamson's position from this point of view, see Johanson and Mattsson (1987), who argue that trust is institutionally based insofar as it develops through repeated exchanges.

11 Some do a better job of establishing these linkages than others. Compare, for example, Crozier's (1964: Chap. 8) rather vague discussion of the culturally based differences in French, U.S., and Soviet bureaucracy with Lazerson's (1988) excellent analysis of how cultural traditions contributed to the formation of extensive subcontracting networks in Italy.
ment of property rights policies by the state are the fundamental sources of the transaction-cost and other inefficiencies that Williamson and others believed to be so important in explaining the development of economic institutions (e.g., North 1981). In contrast to these arguments that are sympathetic to economic efficiency models, some cross-national studies of economic development have suggested that politicians and state bureaucrats successfully promoted different governance arrangements in different countries in order to legitimize their political authority (Hamilton and Biggart 1988) and to compete more effectively with other nation-states in economic and geopolitical affairs (Weiss 1988). Of course, Polanyi (1944: 139–41) was among the first to suggest that the state was often directly responsible for governance transformations. He demonstrated that during the nineteenth century the British market system, allegedly the epitome of laissez-faire capitalism, developed, ironically, out of deliberate state action, and had to be supported by the state thereafter, or face self-destruction. Finally, a vast literature has shown that the state is often directly responsible for the development of associative forms of governance, primarily as a means of avoiding state intervention (e.g., Streeck 1983; Useem 1984: Chap. 6; Streeck and Schmitter 1985).

Not all of this literature views state policy and politics as the primary independent variables in governance transformations, the elements that are responsible for generating the central pressures for change. Others see them in a more indirect role, orchestrating the search process when other factors have already created pressures for change. For example, in an argument that is sympathetic to the power and control tradition as well as Piore and Sabel's technological arguments, Scott Lash and John Urry (1987) noted that advanced capitalism experienced an institutional disorganization during the 1970s and 1980s, triggered not by the state, but largely by the globalization of economic activity and transformation of national class structures. However, they showed that this led to the breakdown of class-based politics, the fragmentation of political struggle, and, as a result, the decline of corporatism, associative governance, and even the partial deconstruction of corporate hierarchies.

The literature about how the state affects governance transformations is vast enough to require a separate and more extensive treatment in Chapter 12. For now, it is sufficient to understand that political struggles within and around the state may play important roles in the governance transformation process, both in terms of creating pressures for change and constituting an important part of the search process.

12 For a review of this property rights school, see Bowles (1984), and for a critique, see Hodgson (1988: Chap. 7).
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AN EVOLUTIONARY MODEL OF GOVERNANCE TRANSFORMATION

The five theoretical traditions each have distinctive strengths and weaknesses; thus suggesting that a more comprehensive approach is required for understanding governance transformations. However, we cannot develop such an approach simply through an eclectic addition of elements selected from each tradition because many of these are rooted in incompatible philosophical positions. Consequently, we must first expand upon the institutionalist assumptions, specified in Chapter 1, that we have made about rationality, and the relationship between human agency and institutional structure. This will help us fuse the useful elements of previous traditions into a more precise composite and evolutionary model of governance transformations.

The basic ontological premise that informs our evolutionary model is that although actors, including individuals, groups, and organizations, are subject to economic, technological, institutional, cultural, and other constraints, they are at the same time creative, active forces that can shape and reshape these constraints. In other words, these constraints generally limit the range of interests and opportunities available to actors, but they do not determine the specific interests and opportunities that actors select. Thus, rationality is contingent, as we discussed in Chapter 1, and there is some, but not unlimited, room for actors to select their goals and actions, a condition that creates the possibility that actors may occasionally interpret and react to their problems in new and unexpected ways. Conversely, although actors may process information, evaluate circumstances, and make purposeful decisions that reshape, intentionally or unintentionally, the constraints that they face, these constraints cannot be reduced to the interests and acts of individual actors. This is because their choices are somewhat limited in the first place, but also because these constraints, interests, and acts arise from the interactions that occur among actors. Indeed, as the preceding chapters demonstrate, actors produce, cooperate, exercise power, and struggle with each other frequently in situations where resources and power are distributed unequally.

In Chapter 1, we suggested that governance regimes constrain production and exchange relationships among diverse economic actors and the state according to various types of rules and means of compliance. These regimes change over time as actors, whose range of choices is constrained in ways that we have just discussed, adjust to exogenous and endogenous forces. However, this process of governance transformation is rarely smooth. First,

13 For well-developed defenses of this ontological position, see Baumgartner et al. (1984, 1985), Giddens (1984), and Hodgson (1988).
as noted before, economic signals and technology are not usually decisive in determining specifically the direction of change or the outcomes of governance transformations. Second, because governance transformations involve significant changes in a governance regime's structure of rights, rules, and compliance procedures, these matters are of intense, often strategic, interest to most actors. As a result, prolonged processes of trial-and-error learning, negotiation and cooperation, and coercion and struggle occur over the structure of new governance regimes. We have referred to this as the search process.

The point is that the reciprocal effects between actors and social constraints, as well as the presence of contingent rationality and the search process, suggest the need for an evolutionary explanation of governance transformations, although one that is neither teleological nor functionalist. The elementary logic of such an explanation begins by recognizing that endogenous and exogenous forces episodically disrupt production and exchange. In response, actors search for solutions to these disruptions through a series of complex decisions in which economic, organizational, and political choices that were institutionalized in the most recent governance regime limit the options that are currently available to actors during the search. In turn, these actors institutionalize their choices in a new governance regime that constrains their future options. This process repeats itself, usually in a gradual manner, as new governance regimes evolve out of old ones, again and again, in the stepwise historical process that we have illustrated in Figure 11.1.14

The centerpiece of such an evolutionary view of sectoral development is what we have summarized heuristically as the search—a process whereby sectoral actors pursue their interests within a variety of constraints and eventually select a new governance regime by combining in intended and unintended ways their individual strategies for coping with the dilemmas of production and exchange. Indeed, the concept of constrained selection captures the essence of the search process as it embodies the reciprocal relationship between actor and constraint, or strategy and structure, as outlined before.

Our model of governance transformation as the selection of new governance regimes is summarized schematically in Figure 11.2 This figure represents the intricacies of one step of the evolutionary process depicted in Figure 11.1. Three sets of actors are linked to each other through complex relationships of dependence and interdependence. These include producer organizations, such as firms, other organizations that typically

14 Ikenberry (1988) develops a stepwise, evolutionary analysis of U.S. energy-policy regimes that illustrates the kind of developmental logic that we have in mind, although his analysis does not focus on institutional transformations per se. Evidence for this kind of logic supports our contention that in order to understand governance transformations, one must have an historical analysis of distinctive sectoral and national experiences that accounts for the contingent nature of structural change.
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Figure 11.1 An evolutionary view of sectoral development.

respond reactively to producers, including suppliers, labor, financial institutions, public interest groups, and consumer groups, and the ensemble of state organizations that behave reactively, but also on the basis of their own interests. Governance transformations are usually initiated by producers, but occasionally by other organizations, who respond to new problems and opportunities that are created by changes in economic conditions and technology. In Chapter 1, we referred to these problems and opportunities as pressures for change. Of course, shifts in state policy, the efforts of actors to increase their power and control over exchange, and other factors may alter economic conditions and technology in the first place, or create pressures for change in their own right to which producers and other organizations may respond. However, if the state initiates a transformation, it does so in response to changes in domestic or international political-economic conditions.

Actors do not respond automatically to pressures for change in a knee-jerk fashion, but rather select the ones, if any, to which they will react. The state does the same thing insofar as changing political-economic conditions are concerned. Of course, some pressures for change may be more difficult to ignore than others, so the existing set of pressures constrains the choices that are initially available to actors. Furthermore, pressures for change are not always exogenous to the model. The institutional character of the existing governance regime or the specific actions of actors
within the sector may contribute to the formation of these pressures. However, to avoid excessive complexity, we have not included these feedback loops in Figure 11.2.

For ease of presentation, we make two further simplifications. On the one hand, we tell the story, depicted in the model, from the producers' point of view. That is, the producers initiate change. On the other hand, we recognize that these three sets of actors should not be treated as mysterious black boxes. Producers, for example, have distinctive interests, organizational routines, time horizons, and performance standards through which they interpret the flow of information about economic and technological options (e.g., Nelson and Winter 1982). These develop within the context of previous governance regimes and represent the cumulative momentum and/or drag of earlier decisions about economic conditions, technology, and relationships with other groups and the state. In this sense, they constitute the producer organization's institutional memory. Of course other organizations, including the state, also have their own interests, routines, time frames, and standards. However, because this model focuses on interorganizational relations, we do not elaborate on this point further.

Three streams of action constitute the central dynamic of the selection process. First, producers initiate the search for a new governance regime,
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sometimes without realizing it, by selecting in an opportunistic manner new production and exchange strategies to optimize their interests on the basis of endogenously and exogenously produced problems and opportunities—strategies that they seek to implement by manipulating their own organizations and their relationships with other actors. Second, these efforts are constrained by the strategies of other economic organizations, reacting to producers. Finally, the state may pursue its own interests and strategies, such as maintaining its legitimacy in the face of public controversies, initiated by producer strategies, or dealing with international pressures from other states and economies, in ways that constrain the actions of producers and other organizations. The state may also become involved if producers or other actors mobilize politically to implement their strategies and achieve their interests.

The idea that one actor’s strategy may constrain the implementation of another’s strategy suggests an interactive process. Indeed, actors eventually select a new governance regime as these streams of action intermingle in complex ways. Trial-and-error learning as the result of spontaneous interaction may predominate in some instances, such as when actors learn how to coordinate their actions around emergent common conventions, incrementally discard unsuccessful strategies, or tacitly align themselves with especially powerful actors. In this sense, selection is very much a process of muddling through. In other cases, deliberate negotiations among organizations will take the place of, or supplement, trial and error. Contracts and legislative bargains that formally reflect the interests, institutional capacities, and relative bargaining power of different actors, including the state, can be important steps along the path to new governance regimes (e.g., Young 1989). Finally, selection may involve elements of coercion through political and economic struggle. For example, producers may exercise economic and organizational power to force labor or suppliers to accept a new governance regime. Recognizing that selection involves the intermingling of streams of action helps to highlight how our model departs from conventional rational-choice conceptions of transformation, and suggests that selection is in many ways a collective process.

Of course, these complex interaction processes are mediated initially by the resources and power with which actors are endowed insofar as the strategies selected by powerful actors are more likely to be implemented than those of weak ones. In addition, the institutional arrangements within the existing governance regime, such as systems of labor-management relations and finance, constrain the selection process to the extent that existing patterns of interaction usually embody a degree of institutional rigidity or inertia out of which it is difficult to break. For instance, when actors have already established promotional networks or associations in their sector and, thus, the capacity for selecting far-sighted, cooperative strategies, they can more easily devise new multilateral governance mechanisms than actors from a sector where short-sighted, bilateral mechanisms,
such as markets, dominate the governance regime. Furthermore, the state constrains the selection process. The state's actions, such as defending or modifying property rights, sustains or alters the relative endowments of resources and power. Likewise, the procedural and legal principles that state actors choose to promulgate and enforce may temper the use of these endowments, and may constrain the types of interactions that occur during the selection process. So does the state's institutional structure, as we explain in Chapter 12. Similarly, cultural factors, including norms of fairness, justice, competition, and cooperation, either of a general or sector-specific nature, may constrain the use of power and resources.

The degree to which trial and error, negotiation and bargaining, or coercion prevail during the selection process determines, and is reflected by, the new governance regime that emerges, particularly insofar as the balance among bilateral and multilateral, and informal and formal mechanisms of coordination is concerned. However, the nature of the selection process also helps to determine the stability of the new governance regime. Presumably a regime that is imposed through coercion will be less stable, and perhaps less durable, than one that is crafted through cooperation. In this regard, stability and durability also depend critically on the ability and willingness of the state to ratify and help legitimize the regime. For example, if state actors provide political support, resources, and legal enforcement for a regime, its stability and durability are likely to be enhanced. The same will probably occur if the emergent regime is organized in ways that are consistent with the current cultural and normative context.

AN EMPIRICAL ASSESSMENT

We have outlined how five theoretical traditions attempt to explain governance transformations, and we have offered an evolutionary model that we argue helps to integrate these theoretical traditions. Our strategy of integration has been to suggest through what mechanisms the central, purportedly causal relationships that are offered by each tradition actually operate. Our model does this through a theory of action that is based on assumptions about the reciprocal effects of strategy and structure. That is, we recognize how various actors respond to changing conditions by selecting strategies, first, individually and then through complex collective processes, that eventually become institutionalized as new governance regimes, but in ways that are constrained by the already existing governance regime as well as other factors. Thus, the model implies that explanations of governance transformation cannot simply postulate dependent and independent variables, but must explain the mechanisms that link these variables – mechanisms through which causal factors actually enter into the evaluations and choices of actors. However, we also recognize that the variables in which we are interested, particularly economic and technolog-
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Logical conditions, power, culture, and state policy, are loosely coupled in the sense that over time, the manner in which they affect actors and the transformation process varies under different internal and external conditions (e.g., Sorge and Streeck 1987). Let us now demonstrate empirically how our model helps to link the separate stories that these five theoretical traditions offer by considering in turn the central arguments of each theoretical school from the perspective of our model and case studies.

Economic efficiency

Our case studies revealed several examples of governance transformations that resulted from actors selecting production and exchange strategies that they believed would help improve economic efficiency. For example, manufacturers in the automobile sector created huge corporate hierarchies by extending their operations through vertical integration, both forward and backward, in order to achieve economies of scale. Indeed, General Motors experienced much greater demand for its products than American Motors and, as a result, became more vertically integrated due to the promise of greater economies of scale. In meatpacking during the late nineteenth and early twentieth centuries, vertical integration proceeded downstream from meatpackers into wholesale distribution. However, retailing was not subject to as much integration, and beef production upstream rarely became integrated with the large packing houses—a finding that supports Williamson's transaction-cost theory insofar as asset specificity was relatively low in beef production and retailing, but rather high elsewhere where special capital-intensive railroad refrigeration systems had to be built to transport slaughtered meat to distant markets. Similarly, a reduction in capital-intensive-specific assets after the Second World War, due to the development of readily available refrigerated trucking, lowered barriers to entry in meatpacking and contributed to vertical disintegration. Vertical disintegration also occurred during the 1960s and 1970s as corporations tried to improve their efficiency by reducing labor and production costs through plant closings in both sectors, and in the automobile sector through the development of precisely coordinated subcontracting schemes between parts suppliers and manufacturers, where parts were scheduled to arrive at the manufacturer just in time for assembly, thus minimizing inventory costs.

Nevertheless, it was often the case that even when interests in economic efficiency, through either promises of reduced transaction costs or improved economies of scale, helped spark the search for new governance regimes, there were additional forces that helped set the selection process in motion. After all, it was breakthroughs in transportation technologies that created the conditions under which vertical integration and then disintegration could be economically efficient in meatpacking. In automobiles, the development of new computerized information and production systems...
created the possibility for just-in-time scheduling. The economies of scale that actors hoped to achieve by building large integrated steel companies were only possible because of the capital-intensive nature of the technologies that were involved. Thus, as suggested earlier with respect to Chandler’s work, the interconnection between economic efficiency and technology explanations of governance transformations is often very tight.

Equally important, however, there were times when actors selected hierarchies and other governance mechanisms for reasons completely unrelated to efficiency considerations. For example, in the hospital sector after 1965, companies began to integrate vertically through hospital-management corporations and later through diversification schemes, not because actors believed that this would reduce transaction costs or improve economies of scale, but because state policy rewarded them for doing so through larger Medicare payments. In fact, these hierarchies emerged in an environment where there were very few incentives to minimize costs at all because Medicare paid a patient’s medical expenses on a cost basis—a situation, it turned out later, that actually led to a decrease in economic efficiency insofar as the creation of corporate hierarchies increased the organizational costs of providing healthcare.15 Furthermore, when vertical disintegration occurred in our cases, it was not always due to the perception of private actors that markets or obligational networks had become a relatively more efficient governance alternative, but because state policy forced the transformation for political reasons, as happened when the federal government invoked antitrust law to break up both AT&T in the telecommunications sector in 1982 and some of the vertically integrated hierarchies in the meatpacking sector during the first half of the twentieth century. Indeed, many of the transformations that occurred in our cases do not appear to have been caused primarily by private actors searching for greater economic efficiency. Rather they stemmed from shifts in technological, political, and other conditions, elaborated in what follows.

It is worth mentioning that economy of scale or transaction-cost models were only helpful for understanding those transformations that resulted in the selection of bilateral forms of governance—mechanisms located on the left side of the typology of governance mechanisms that we presented in Chapter 1 (see Figure 1.1). Often these were related directly to the creation or undoing of corporate hierarchies. In addition to the examples already discussed, formula pricing, a type of obligational network, developed in the meatpacking sector, where, in response to the vertical disintegration that occurred after 1960, beef producers established flexible long-term contracts with packing houses well in advance of product exchange through

15 There is also evidence, as Hollingsworth suggests in Chapter 2, that some forms of monitoring, such as price leading, developed in the United States, although they tended to be relatively inefficient.
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an agreement that allowed them to specify prices at a later date. They selected this form of governance to reduce the transaction costs associated with what would have been a constant series of price negotiations. Similarly, steel manufacturers sought long-term contracts with customers to stabilize demand, a necessary precaution taken to ensure that their expensive mills would run continuously and realize the economies of scale that they were designed to achieve. In contrast, when actors pursued multilateral forms of governance, they often did so to counteract what they believed was excessive price competition, a problem that is much different from those of efficiently obtaining production factors or manufacturing products that we have been discussing, and that are typically the focus of the economy-of-scale or transaction-cost literatures. Formally organized associations and pools emerged during the nineteenth and early twentieth centuries in steel, meatpacking, and railroads to reduce price-based competition. Steel companies also orchestrated explicit price-fixing agreements through the infamous Gary dinners, a promotional network, and actors in the meatpacking, steel, and automobile sectors pursued tacit price-leading strategies, a form of monitoring, at various times. All of these were attempts to extract greater profits from consumers and, therefore, illustrate governance transformations driven by the collective exercise of power, rather than the quest for greater efficiency.

Furthermore, although it appears that conventional economic efficiency models are helpful for identifying important pressures for change, at least in some cases, they are less useful for understanding how and why actors eventually selected one alternative governance mechanism, rather than another, to be dominant, particularly insofar as multilateral forms are concerned. We cannot, for example, understand why meatpackers first selected pools, then a holding company, and then the least formally organized multilateral form of all, price leading, to control cutthroat price competition between 1880 and 1920, or why price leading, rather than these other forms, finally succeeded in solving the problem unless we introduce a political analysis that includes a discussion of the struggles that erupted around the antitrust issue. Transaction-cost or economies-of-scale models are of little value here.

Perhaps we should not be too critical. After all, the economic-efficiency literature has been preoccupied with developing models to explain the conditions underlying the formation of bilateral, not multilateral, forms of governance (Etzioni 1988: 5; Schneiberg and Hollingsworth 1990). This is ironic because orthodox economists have tried to apply their models to

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16 Indeed, representatives of this tradition, such as Williamson, have often failed to recognize that multilateral forms of governance have been frequently an important institutional means of coordinating economic activity in the United States, as our case studies demonstrate.
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many social phenomena that others consider to be beyond the traditional domain of economics, such as politics (e.g., Downs 1957) and the family (e.g., Becker 1976) - an exercise that some have condemned as a dangerous form of economic imperialism (e.g., Granovetter 1989; Swedberg 1989). However, orthodox economists have not done so in this case.\footnote{Of course, beginning with Olson's (1965) path-breaking study, many economic theories have been offered to explain the collective action of individuals. Yet, we are not aware of any that explicitly try to understand the development of the types of interorganizational institutions that are located on the multilateral side of our governance mechanism typology. Knake and his colleagues, however, appear to be moving in this direction (e.g., Knake and Wood 1981; Knake and Wright-Isak 1982).} We must turn to other explanations if we are to understand the forces that precipitate searches for the full range of governance transformations that have occurred in the United States.

Technology development

Innovations in technology created possibilities for governance transformations in many of our case studies by providing actors with an opportunity to devise new strategies for production and exchange. In the extreme, these opportunities permitted actors, previously excluded from participating in the sector, a chance to carve out a niche for themselves. For example, we have seen that the increasing availability of relatively low-cost highway transportation reduced barriers to entry in the meatpacking industry and helped to foster market competition where an oligopoly had exercised control for decades, in part through its control over enormously expensive railroad distribution systems that were made possible in the first place by the development of railroads and refrigeration technology during the nineteenth century. The geographical expansion of milk distribution, due to improvements in railroads, refrigeration, and sanitation, established the possibility for transforming the dairy sector during the late 1800s from an economy of locally based milk markets into one where central distributors had a chance to develop, form oligopolies, and dominate the distribution system in urban areas. The development of microwave technologies during the 1950s and 1960s created the opportunity for independent firms to break into a telecommunications industry that had been monopolized by AT&T and its affiliates for nearly a century.

- This is not to say that major technological breakthroughs automatically trigger governance transformations. As Piore and Sabel (1984) suggested, new technologies simply broaden the range of production and exchange strategies from which actors may select in organizing economic activity. In our cases, it was always an open question which option actors would eventually choose, and, once they had decided, it
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It took a long time before the institutional effects of their decisions began to materialize. Although companies began trying to utilize microwave technologies, for instance, in the 1950s to penetrate AT&T's monopoly on telephone service, it was not until 1971, after years of litigation and regulatory haggling that culminated in an FCC decision to permit long-distance competitors to interconnect with the Bell System's local exchanges, that they began to establish competitive services for customers. Thus, new technology created the possibility for a governance transformation, but struggles over regulatory policy determined the final outcome. Similarly, in the nuclear sector, adoption of the light-water reactor established the possibility for the kind of accident that occurred at Three Mile Island. In turn, the accident created the conditions that prompted actors to search for a new governance regime, one where they selected self-regulatory associations and promotional networks to improve the sector's performance and public image. Yet the accident was also due in part to mismanagement of the technology, that is, laxity in safety research and regulation, problems that stemmed from the already existing governance regime. Thus, a variety of factors, including state policy and the structure of governance itself, modifies the influence that technological developments have on the transformation process.

On the other hand, once the decision has been made to pursue and institutionalize one technology, rather than another, in a particular regime, the availability of alternative technologies and regimes tends to decrease as movement along the chosen path develops a momentum of its own out of which it is hard for actors to break (Dosi 1984: 85; Piore and Sabel 1984). Although most members of the nuclear sector recognized the benefits of standardizing reactor designs, this became virtually impossible to do after manufacturers and utility companies decided to commercialize two different versions of the light-water reactor and market them competitively. Elsewhere, massive capital investments by the big steel hierarchies in old brownfield sites during the 1950s and 1960s made it extremely difficult for them to abandon these traditional mill technologies in favor of new, more flexible minimills later, even though the minimills appeared to be a more appropriate technology for the shifting economic climate of the late-twentieth-century steel sector. As a result, it was not the old steel oligopoly that innovated with the minimill technology, but a new group of competitors that selected a more market-oriented governance regime. The point is that although dramatic changes in technology expand periodically the range of choices for organizing governance, once these choices have been made, actors tend to become locked into the technology and the governance regime in which it is embedded in ways that constrain future choices in an evolutionary manner, as discussed earlier.

Many of the technological developments that were described in the pre-
ceeding chapters, including minimills, truck transport, and microwave communications, encouraged the selection of new production and exchange strategies that eventually led to major governance transformations. However, in light of the arguments reviewed earlier that suggest that technological change is often the driving force behind governance transformations, we need to explain why in some cases new developments in technology did not induce change, such as the hundreds of innovations that occurred in the telecommunications sector as a result of AT&T's extensive research-and-development efforts. Following Giovanni Dosi (1984), we can divide these technological innovations into two categories. The development of these steelmaking, transportation, and communication technologies are examples of extraordinary technological innovations because they were so revolutionary that they opened up a new range of production and exchange opportunities for actors, whereas the latter AT&T innovations are examples of normal innovations that merely refined already existing technologies and, therefore, did little to alter the range of strategic opportunities, unlike the development of microwave-transmission technology.

Not only does extraordinary innovation tend to create pressure for change, it appears to do so in ways that often foster market competition. The advent of microwave technology enabled actors to create competitive markets in telecommunications, as did trucking in meatpacking and minimills in steel. This is consistent with Dosi's (1984) prediction that when extraordinary innovation occurs, it tends to induce competition as many actors try to pursue the new technological path and take advantage of new commercial opportunities. However, he also suggested that once the new technology becomes firmly established, normal innovation becomes the typical pattern, and oligopoly tends to emerge as some firms begin to internalize the process of technology development, thereby constructing barriers to entry, a process that is similar to that which Markusen (1985) described, and that we summarized earlier. This was precisely the purpose of AT&T's research-and-development strategy, where the company spent tremendous sums of money to stay at the forefront of technological development in telecommunications, and patented its innovations to create barriers to entry that contributed to the development and reinforcement of its monopoly position. In fact, as this case suggests, actors may use normal innovation more generally as a strategy to stabilize the already existing governance regime. In the nuclear sector, a variety of normal safety innovations, such as those developed during the 1970s in response to the public outcry over inadequate emergency systems, appear to have been devised, at least in part, to stabilize a politically volatile situation that threatened to disrupt the current regime. Thus, extraordinary innovation tends to generate pressures for new governance regimes and normal in-
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novation tends to help actors adjust to changes in their sector's political economic environment in ways that help them stabilize or reinforce already established regimes. Of course, it is difficult to determine in advance whether an innovation will be extraordinary or not. This problem was another reason why AT&T pursued its aggressive policy of developing and patenting as many innovations as it could. If the corporation discovered a potentially extraordinary innovation, AT&T's patent would prevent another firm from using the technology to challenge the existing monopoly. Thus, this is an example that also suggests that powerful actors, endowed with substantial resources, are often able to control the range of technologically determined strategies that are available to others.

In addition to these change-inducing and adjustment-inducing influences, technology also seems to provide certain background conditions that help us anticipate how different sectors are likely to be organized. Our cases indicate that actors in sectors that are based on expensive, mass-production or process technologics tend to form governance regimes that are dominated largely by hierarchies, such as occurred in railroads, steel, automobiles, and nuclear energy, a finding consistent with much of the literature (e.g., Chandler 1977; Caves 1980; Stinchcombe 1983), and discussed by Rogers Hollingsworth in Chapter 2. When the large capital requirements for adopting expensive technologies are not met easily by single firms, actors also appear to form obligational networks. Examples include the joint ventures among utility companies who sought to build nuclear plants together after investment capital became more expensive in the early 1970s, and the joint venture between the Bell System and the Morgan banking interests during the early 1900s that provided the capital Bell needed to buy out independent telephone operators, obtain telegraph technology, and initiate its research-and-development program. The Morgan–Bell network dissolved after the Bell company turned to public stock offerings as an alternative source of finance capital. However, when the new technolo
gies involved are less expensive relative to the old ones, as they were in microwave communications and mininills, or when they are craft-based, as they were in dairying, which, until recently, was based on relatively

18 This argument is consistent with recent work in economics on long waves and macroeconomic development, where it is argued that fundamental breakthroughs in technology, such as the invention of the steam engine, the automobile and low-cost petroleum products, and, most recently, microelectronics have triggered long-term swings in economic performance. For reviews of this literature, see Freeman (1984, 1986). We do not address this literature here because it dwells on the relationships between technological innovation and macroeconomic performance, and gives only very limited attention to how technological innovation affects the institutional structure of the economy, although there are some exceptions (e.g., Perez 1986).
small farms, corporate hierarchies appear less likely to emerge than either market competition (steel, telecommunications) or perhaps multilateral forms of governance (dairy).

Finally, although an elaborate discussion is well beyond the scope of this chapter, our case studies shed some light on one of the fundamental disagreements about economic change that continues to rage between orthodox and institutional economics. The orthodox school treats the development of technology, as well as the possibilities and constraints it poses for the economy, as a phenomenon that is exogenous to the economic system and, therefore, as something that economists do not have to explain in order to develop a theory of economic change. Institutionalists maintain just the opposite: technological change is endogenous to the economy and requires explanation if we are to construct such a theory. On the one hand, we have seen that some important technological innovations occurred outside of the sectors that were eventually affected. The development of truck transport, a technology that helped transform the meatpacking sector, had little to do with anyone connected directly with this sector. On the other hand, a vast proportion of the technology improvements that occurred in the telecommunications sector were the deliberate work of AT&T as part of its patent wall strategy. The selection and refinement of the light-water reactor as the nuclear sector's technological cornerstone was largely due to the military and political interests of Congress, and the financial interests of a few large manufacturers who already had a stake in this technology. In both cases, technological innovation did not spring magically from the heads of independent entrepreneurs as Markusen implies. Nor was it developed because it was believed to be the most administratively or technologically efficient way to proceed. Instead, these innovations were primarily the result of a search for greater political and/or economic power by actors who already played substantial roles in economic governance, and who sought to institutionally reinforce them through further technological development. So, in addition to lending some support to the institutionalist position on the origins of technological pressures for change, these examples also suggest the need for an analysis of struggles for power.

*Power and control*

In addition to technological developments and problems of economic efficiency, the interests of actors to increase or maintain their power over

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19 For elaborations of this criticism of orthodox economics, see especially Hodgson (1988: 12–21), but also Elliott (1984) and Stevenson (1987).

20 For further discussion about how technology is developed to maintain or increase power, rather than efficiency, see David Noble (1977) and Katherine Stone (1981).
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Each other, and their control over critical resources and information often constituted pressures for change in many of our case studies. Steel manufacturers, for example, integrated backwards into coal mining during the 1800s to discourage others from entering the steel manufacturing business, as well as to guard against the opportunism of mining companies. In the dairy sector, milk distributors, seeking to augment their already considerable power to force prices on dairy farmers, established urban milk exchanges and monitoring networks through which they banded together to set the purchase price of milk without input from farmers. In telecommunications, the Bell company granted certain local companies exclusive rights to use its technology in specific geographical areas in exchange for which the companies relinquished eventually all of their stock to Bell and agreed not to interconnect with other independent operators. This was a deliberate attempt by Bell to increase its control over these firms, and a strategy that contributed to the eventual development of a single corporate hierarchy in the sector.

In response to offensive drives for power, such as these, actors often took defensive steps, selecting reactive strategies that led to the further transformation of governance. Most obviously, workers in the railroad, steel, meatpacking, and automobile sectors tried to counteract the power of large corporate hierarchies by creating unions. When they succeeded, union-based wage bargaining and long-term labor contracts replaced competitive labor markets as the mechanism for setting wages. In turn, corporations themselves occasionally banded together to deal with organized labor, as was the case in the steel sector, where they formed multiemployer bargaining groups to negotiate with the United Steelworkers. Similarly, dairy farmers formed cooperatives to deal from a position of collective strength with powerful milk distributors—a strategy to which distributors responded by creating their own associations. When AT&T tried to eliminate independent telephone companies by refusing to interconnect them with its long-distance lines during the late 1800s, the independents formed associations to counter these tactics. In the hospital sector, physicians fostered and supported such collective organizations as the American Hospital Association and the American Medical Association in order to defeat the movement for national health insurance, and to reinforce their own autonomy and control over the healthcare system. Finally, shippers who objected to the rate fixing of railroad companies formed associations to stop these practices. Indeed, in our case studies, when one group of actors sought to alter the balance of power or increase its control over resources through multilateral forms of governance, others who were threatened often responded in kind—an evolutionary process, noted by some sociologists (e.g., Aldrich 1979: 321; Useem 1984: Chap. 6; Ofte and Wiesenthal 1985: 189), where strategic selections build upon each other in a serial
fashion. As will be discussed shortly, the evolution of governance regimes in this manner is very much the result of an interactive process among different actors.

Two points are worth noting here. First, although we have seen that concerns about economic efficiency generated pressures for change in some cases, more often it was a concern about power and control that created this pressure, at least in part. This supports the position of scholars, such as Charles Perrow (1981, 1986), who argued that although efficiency considerations may lead occasionally to transformations, it is the desire of firms, and we would add other groups as well, to control markets, labor, and production that is most often the critical stimulus. Second, although much of this debate has been cast in terms of the conditions under which markets and hierarchies emerge, our data indicate that it is also relevant to the formation of multilateral forms of governance. In our cases, concerns with power and control triggered searches that led to the selection of multilateral forms of governance far more often than did concerns with economic efficiency. We have already reviewed several key examples where defensive reactions to power led to the creation of multilateral governance mechanisms, such as unions and associations. Hence, it appears that analyses based on power are more useful generally than those based on efficiency, although not exclusively so, in explaining the development of pressures for change, regardless of whether the governance regime that emerges is dominated by multilateral or bilateral governance mechanisms.

Those who have argued for an analysis of governance transformations based on power, including Perrow, have focused on struggles among actors within sectors of the economy as the key source of pressures for change. Yet these are not the only conflicts over power that precipitate transformations, especially those leading to the formation of multilateral governance mechanisms. The same may occur when actors perceive that outsiders threaten their common interests. For example, foreign competition in the automobile sector led members to search for ways to improve their competitive position, particularly against the Japanese. Eventually, they selected promotional networks, including industry conferences and collaborative research and information exchanges among suppliers, manufacturers, and dealers. Similarly, in steel, the American Iron and Steel Institute organized industrywide research-and-development projects to help the sector compete more effectively against foreign imports. In meat-packing, as consumption of red meat declined nationally during the late 1970s and 1980s due to consumers turning to other products, such as poultry, trade associations assumed an increasingly important role in promoting

21 For further discussion about how associations often develop in response to market power, rather than considerations of economic efficiency, see Schneiberg and Hollingsworth (1990).
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sector's products. In all of these cases, threats of product substitution, or from foreign competition or other sectors, caused actors to realize they need to defend their common interests. This is consistent with those who have argued that multilateral forms of governance are more likely to appear when the primary interests of actors are homogenous (e.g., Aldrich 1979: 39-41), and when actors are bound up in relationships with each other that are marked by what Jeffrey Pfeffer (1987) called commensalistic interdependence — a structural relationship among organizations that is derived from their mutual dependence on the same resources. Indeed, what better way to sensitize actors within a sector to their common interests than to threaten, through foreign competition or product substitution, the most critical resource that they share: the total pool of available customers for the finished product.

What most distinguishes the power and control tradition from the economic-efficiency and technological-development models is that in addition to helping us understand the origins of pressures for change, the power and control view also provides insights about the selection process. As noted earlier, the relative resource and power endowments of actors mediate the selection process by affording more richly endowed actors with greater capacities to implement the governance mechanisms of their choice. For example, although the Carter White House selected a corporatist strategy to rejuvenate the ailing steel industry in the late 1970s, a scheme that would have led to a multilateral governance regime, large steel manufacturers and organized steelworkers opposed the plan, for different reasons, and were powerful enough politically to block the Carter initiative. Similarly, although independent telephone companies during the late 1800s organized associations in an attempt to counter the coercive tactics of AT&T, the associations were short-lived because AT&T had enough resources to undermine their effectiveness by buying out some of the members, and because the state invoked antitrust and other policies that further crippled their operation. Hence, the power and resources of other actors prevented the development of effective associative behavior among the independents. In railroads, the substantial political strength of farmers who were opposed to railroad pools and associations around the turn of the century contributed to the failure of these forms of governance, in part by helping to persuade federal officials that state, not private, railroad regulation was necessary. Finally, in telecommunications, the Bell company was able, through its possession of patents, to license technology to local companies for building and operating telephone exchanges during the late nineteenth century, thus establishing hundreds of obligational networks around the country that enabled the Bell System to shift much of the risk and capital costs in establishing local telephone service on to these smaller and less-powerful companies.

A second way in which the power and control tradition sheds light on
the selection process is by focusing on the \textit{interactive and collective dynamics} that are involved. We have already examined the evolutionary nature of the selection process insofar as one actor's strategic choice often induces another's strategic response. Through repeated interactions, such as these, actors collectively construct new governance regimes through power struggles and coercion. Sometimes, however, selection is more of a bargaining process, as was the case in the dairy sector when, during the early twentieth century, the Federal Food Administration orchestrated corporatist-style price bargaining between dairy cooperatives and distributors, a new multilateral form of governance. At other times, selection is at least partially a matter of trial and error, such as when meatpackers first formed pools, then a holding company, and, finally, tacit price-fixing schemes to eliminate excessive price competition, although in this case, state power was also operating to the extent that government officials challenged the legality of the pools and the holding company.

Richard Nelson and Sidney Winter (1982) and others who have advocated that economic-efficiency models be supplemented, if not replaced, with evolutionary models of economic change have started to recognize that power and control models are useful for explaining not only pressures for change, but also the selection process that results. They have done so by arguing that the search for new economic arrangements often involves conflict \textit{within} firms among people who are responsible for choosing organizational options.\footnote{Insofar as Nelson and Winter recognize that conflict within organizations may help determine the course of organizational change, it is somewhat surprising that they express reservations about including an analysis of power in their models (e.g., Nelson and Winter 1982: 44). See Foster (1987: Chap. 7) for a macroeconomic argument in favor of evolutionary models that is very sympathetic to Nelson and Winter, but that includes an explicit analysis of power.} Yet, as we have demonstrated, this is not enough. We must push beyond such microlevel organizational analysis and explore how conflicts \textit{among} firms and other organizations within and beyond sectoral borders determine new governance regimes.

\textbf{Culture}

Although there are relatively few examples in our case studies that provide insights about the effects that culture and ideology (i.e., general systems of beliefs, norms, and values) have on governance transformations, we do find some that suggest that these factors constrain the selection process, facilitating or inhibiting the formation of different types of governance mechanisms, and helping to determine how effective and stable a new governance regime will be once it emerges. For example, steel executives formed what Christoph Scherrer described in Chapter 6 on steel as a "corpsgeist," that is, cooperative attitudes and collective understanding,
through the Gary dinners between 1907 and 1911, much as meatpackers developed a cooperative ideology through earlier pools and holding companies. Later, actors in these sectors were able to establish monitoring arrangements, particularly price-leading schemes, that operated successfully for years because they had already developed, through these earlier promotional networks, a familiarity with each other’s practices and a sense of cooperation – a collective consciousness about what was best for their sectors. In dairying, immigrant farmers brought to the midwest European ideals of collectivism and cooperation that helped to shape an early dairy culture. This served as the ideological foundation upon which they later built dairy cooperatives. During the 1910s, the development of a promotional network of farmers, cooperatives, agricultural extension agencies, and land-grant universities throughout the region reinforced and contributed further to the articulation of the sector’s long-term collective goals, which, in turn, helped farmers to form associations of dairy cooperatives during the 1920s in response to a variety of economic problems. Furthermore, the Grange movement of the 1870s cultivated a collective militancy among midwestern farmers that also served dairymen who sought to found cooperatives and associations.

These cases stand in stark contrast to the railroad sector, where actors formed pools and associations to control cutthroat price competition, scheduling, and other collective economic problems, but where such multilateral governance failed in part because members could not resist the temptations of short-term, individual gains that could be won by betraying their collective commitments. These temptations might have been tempered had there been a stronger cooperative ideology among railroad executives. Yet, apparently there was not, even though the federal government passed legislation in 1866 that encouraged the formation of these multilateral forms of governance.

As noted earlier, Granovetter (1985) argued that actors are likely to create successful obligational networks instead of hierarchies, if transacting parties have well-established, trusting relationships with each other, thus reducing the need for actors to control opportunism and malfeasance with administrative controls. Our data suggest that we can extend his argument to multilateral forms of governance insofar as they may also serve as an alternative to hierarchy, if cultural and other conditions are right. Ironically, support for this proposition comes from the meatpacking and railroad sectors, two cases where hierarchies replaced pools and associations, but for different reasons. In meatpacking, where economic activity was embedded in a milieu of familiarity and cooperation, multilateral governance enabled actors to effectively control the difficulties associated with excessive market competition until the state forbade it, largely through antitrust policies. As a result, actors created hierarchies to resolve these sectoral problems. On the other hand, in railroads, although the state tried to
promote these multilateral mechanisms, at least until the late nineteenth century, rampant individualism, the antithesis of a cooperative ideology, undermined the project. Given the differences in cultural context, had the state not interfered, multilateral governance might have succeeded in meatpacking; but without even stronger doses of political support, it was still probably doomed to failure in railroads. Thus, these cases substantiate the claim of Piore and Sabel (1984: 255–65), and others, that multilateral forms of governance generally require a sense of community, common background, or other ideological or cultural adhesives to sustain them.23

Yet these examples also suggest that culture and ideologies are not free-floating, but institutionally based systems of beliefs. The dairy culture, for instance, was nourished in the United States through an elaborate institutional network of private and public organizations. It seems, then, that William Domhoff (1974) was correct when he argued that the development of class consciousness, and we would add all consciousness that contributes to governance transformations, is facilitated by institutions that contribute to the production and reproduction of culture and ideology, an idea that has been echoed recently by other scholars from different theoretical traditions that are critical of orthodox economic models of transformation insofar as these models provide no room for cultural influences (e.g., Foster 1987; Etzioni 1988). The more important point, however, is that the effects of institutions and culture are reciprocal. That is, a current governance regime may facilitate the development of an ideological and cultural milieu that contributes to governance transformations later, as was the case when the dairy sector's promotional network supported a dairy culture that, in turn, helped foster the collective consciousness that was central to the formation of associations of dairy cooperatives. Unfortunately, our case studies do not provide enough data to pursue this point further.

Nevertheless, all of this sheds light on arguments that have been critical of culturally based explanations of governance transformations, such as those posed by Gary Hamilton and Nicole Biggart (1988), who argued that cultural explanations of institutional change in East Asian economies were unconvincing because, although the entire region's culture was fairly homogeneous and static, the variations in governance regimes, both historically and cross-nationally, that emerged within the region after the Second World War were substantial. Their analysis was insightful in many ways. However, our data indicate that one must move very cautiously when

23 We are not claiming that such cultural support is always sufficient to foster and sustain multilateral forms of governance, just that it often appears to be necessary. We have already noted that there is a substantial body of literature that suggests that political support from the state is also usually important (e.g., Streeck and Schmitter 1985), as these cases illustrate. Similarly, Weiss (1988: 202) suggested that although culture may have some effect, the more important determinant in facilitating the development of networks is the state.
attributing a general set of cultural or ideological traits to regions or national economies, something that critics as well as proponents (e.g., Crozier 1964) of cultural explanations have often failed to do. Our cases reveal tremendous cultural and ideological variation across sectors within the U.S. economy. Furthermore, we have seen that these features tended to change, often in an evolutionary manner, as they did in steel, where a cooperative ideology developed gradually through repeated interactions among steel executives. In short, if one recognizes that culture is heterogeneous and dynamic at the sectoral level, then there may be a more significant role for cultural explanations in the analysis of governance transformations than critics have been willing to admit.24

However, we must also recognize that in our examples, cultural and ideological factors did not serve as pressures for change that triggered the selection process, as other factors did. Nor did they determine in any immediate or direct sense the new governance regimes that actors selected. This was largely a matter of the interactive selection processes that we described earlier. Instead, where they could be clearly identified, cultural factors served a much more subtle and indirect role insofar as they provided a social context within which the selection process occurred. In other words, they helped to define the range of available governance mechanisms from which actors might choose, and influenced the probabilities that actors would institutionalize their choices on a relatively permanent basis and use these mechanisms successfully. This latter point is an important one to the extent that emergent governance regimes that were clearly inconsistent with surrounding cultural and ideological parameters were often ineffective in helping actors solve the problems for which they devised new regimes. As a result, these regimes were short-lived. This is what happened in railroads, where associations proved to be only transitional forms of governance that preceded other more permanent ones because they conflicted with the politically dominant laissez-faire ideology of the time, expressed in antitrust policy. Of course, this raises again the issue of the state’s role in the selection process.25

State policy

We have referred repeatedly to the many ways in which the state influenced governance transformations in our cases. Although we have reserved a thorough discussion of these influences until the next chapter, it is worth

24 Biggart seems to have recognized this point more recently and has tried to build a normative element into her analysis of the formation of different types of markets (e.g., Abolafia and Biggart 1989).

25 The state is very important in this regard because it both helps to define the politically dominant ideologies, and plays a very important role in ratifying, or refusing to ratify, new governance regimes. We defer further discussion of these issues until Chapter 12.
sketching, however briefly, the major aspects of the state's roles in order to highlight their complexity and to round out the preceding discussion.

Perhaps more than any of the other factors discussed here, the state is capable of influencing governance transformations throughout the entire transformation process. First, state actors may devise policy that creates pressures for change either intentionally or unintentionally. In the former category, we have seen how policy makers deliberately manipulated antitrust laws in the dairy, steel, railroad, meatpacking, and telecommunications sectors to either facilitate or break up corporate hierarchies, promotional networks, and associations. In the latter category, the passage of Medicare legislation helped to spawn indirectly the development of capital markets in the hospital sector.

A second way the state influences governance transformations is by facilitating the selection of a new governance regime once pressures for change have materialized. Sometimes state actors select policies specifically designed to solve problems for a sector, such as when federal regulators passed beef-grading regulations during the 1920s that increased the amount of information about beef quality that was available to consumers, thus helping inadvertently to create competitive markets in the meatpacking sector. At other times, the state sustains or alters the balance of power among actors, as was the case during the 1920s when the Federal Food Administration protected fledgling dairy cooperatives from antitrust prosecution, and orchestrated producer-distributor price bargaining throughout the sector. At other times, the state’s influence is much more subtle as its legal principles and institutionalized procedures constrain the selections of other actors. In the automobile sector, for instance, right-to-work laws in the south helped to keep labor costs low for southern parts suppliers, a situation that encouraged automobile manufacturers, who were looking for ways to reduce costs during the 1970s and 1980s, to reduce the level of vertical integration in their operations by establishing just-in-time subcontracting arrangements with these suppliers. Finally, the state often helps to ratify and stabilize new governance regimes once they emerge. In telecommunications, for example, independent firms frequently challenged the Bell company's monopoly by asking the courts to determine whether Bell was entitled to control telephone technology through its patents. Judges generally sided with Bell, thereby legitimizing and further stabilizing the company's hierarchical domination within the sector.

Not only do our cases reveal that the state plays important roles throughout the transformation process, but that it does so with respect to the creation of all types of governance mechanisms. One of the most interesting of these involves the creation of markets. Much of the literature on governance transformations has focused on the conditions under which corporate hierarchies replace markets as the principal institution for coordinating transactions. A good deal of this literature implies that mar-
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Markets occur naturally or spontaneously, in the sense that actors do not deliberately plan or construct them in advance of actual transactions, and that the existence of markets precedes the development of hierarchies insofar as actors will begin to organize their activity through hierarchies only when extenuating circumstances arise that cause markets to breakdown.26

Yet our analysis of the state's role in governance transformations suggests that there is nothing natural or inevitable about the existence of markets, and that markets are not necessarily the precursors to all other forms of governance. Instead, we found that actors select and socially construct markets, just as they do other forms of governance. For example, although utility companies were reluctant to begin buying nuclear reactors for the commercial generation of electricity during the 1950s, Congress finally convinced them to do so by threatening to build government-owned nuclear plants that would compete with private utilities. In telecommunications, a series of regulatory rulings from the Federal Communications Commission and the courts between 1968 and 1982 led directly to the creation of competitive markets for long-distance telephone service where once there had been only the AT&T monopoly. Of course, we have already seen how state policy contributed to the formation of markets in meatpacking and hospitals. Brigitte Young suggests in Chapter 8 that the trend toward deregulation may help precipitate a shift away from associative forms of governance in the dairy sector toward an economy organized more through markets. In these examples, the state played an active role in helping to construct markets where there had never been commercial exchange to begin with (nuclear), or where alternative governance mechanisms had come to coordinate exchange (hospitals, meatpacking, telecommunications, dairy). Thus, we agree with Hodgson (1988: 210), who argued that "the onus is as much to explain the existence of the market as it is to explain the existence of the firm," and we would add other governance mechanisms as well. Indeed, as Polanyi (1944) suggested years ago, an analysis of the effects of state policy must be an integral part of these explanations, particularly insofar as they concern the social construction and maintenance of markets. Perhaps the reason why economists and others have tended to grant such a privileged status to markets in the first place is that they have systematically ignored the empirical effects of po-

26 For examples of those who create this impression, see Williamson (1975, 1985) and Chandler (1977). For recent criticisms, see Lazonick (1986) and Hodgson (1988: Chaps. 8-9). The most extreme form of this argument is perhaps that offered by Armen Alchian and Harold Demsetz (1972), who argued that, contrary to conventional wisdom, the firm does not settle issues through authority, but, or disciplinary actions in ways that are much different from the market. Hence, they suggest that the firm is actually a special sort of market, and tended to imply, therefore, that markets are everywhere.
litical and other social processes by which actors have selected markets historically – an omission that our case studies help to correct. 27

To summarize briefly, we have demonstrated that the insights of all five theoretical views of governance transformation are valuable, although in different ways, for developing a more comprehensive, evolutionary model of the transformation process. We have done this by showing the extent to which each view is particularly relevant for explaining how the selection process proceeds at different stages of our evolutionary model. Most perspectives helped us to identify the origins of pressures for change. Theories that emphasize the importance of power and control, as well as the state, were especially useful for understanding how actors collectively produce new governance regimes by blending their individually selected strategies in complex ways. Those that stress cultural and political factors provided important clues for understanding how emergent regimes are stabilized and become durable. In addition, we have shown that the new evolutionary model conforms in many ways to the empirical stories of our case studies.

As a result, it is clear that exclusively economic arguments about governance transformation, including the so-called new institutionalism, offered by Williamson and his followers, are myopic to the point of reductionism. Without an analysis of politics, technology, culture, and other social factors, one cannot arrive at a solid theoretical understanding of the governance transformation process. Yet we are not trying to replace economic analyses of this phenomenon with other forms of social analysis. To do so would be to engage in the same sort of intellectual imperialism for which economists have recently been accused. Rather, we suggest that a far more eclectic approach is required, one that squares well in this regard with the socioeconomics that scholars have recently proposed, and one that refuses to reduce governance transformations to any narrowly focused category of variables. 28 However, it would be a mistake to simply search for an assortment of economic, political, technological, and other variables that seem to trigger transformations. Although insights may be gained from such an exercise, as Hollingsworth demonstrated in Chapter 2, we concur

27 Even those who seem to have fallen into the same trap as Alchian and Demsetz (1972), that is, suggesting that markets are more or less everywhere (see note 26), have, nevertheless, recognized recently that it is incorrect to argue that markets are naturally occurring phenomena. For example, Abolafia and Biggart (1989) suggest that such diverse forms of governance as the Chicago Board of Trade, Japanese business groups, and direct sales organizations, all of which they consider to be markets, were created deliberately through a complex variety of social forces, often including political struggle. Coase (1988: 8–9), an early proponent of transaction-cost economics, a school that often leaves the impression that markets are naturally occurring precursors to other forms of governance, has also recognized recently how political forces often play important roles in the deliberate planning and social construction of markets.

28 See, for example, Etzioni (1988). The danger with such an approach, as Etzioni (1988: 15–16) noted, is that breadth of focus is often achieved at the expense of depth.
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with Nelson and Winter (1982), who argued that the key to understanding economic transformations is an analysis of the search process. Indeed, the evolutionary model we have developed gives pride of place to the processes through which actors select new governance regimes. Without such an analysis, governance transformations will appear to be knee-jerk reactions to various constellations of independent variables, and explanations will lack much appreciation or insight as to the causal mechanisms that are involved.

TRAJECTORIES OF CAPITALIST DEVELOPMENT

Our discussion of governance transformations bears directly on debates about the long-term institutional development of advanced capitalism. During the 1950s and 1960s, both liberals and Marxists argued, for different reasons, that the imperatives of economic and technological rationality were propelling all capitalist societies toward a common institutional structure, characterized by large firms, concentrated industries, and mass-production technology (e.g., Baran and Sweezy 1966; Galbraith 1967). Later, critics, who were concerned with explaining the presence of industries and parts of industries consisting more of craft-based production and small firms than of colossal corporate hierarchies, argued that these convergence theories had grossly overstated the case. They offered theories of dualism instead, which suggested, for example, that more traditionally organized sectors persisted because large modern firms often sought to avoid a variety of labor problems and restrictive regulations that were commonly associated with modernization, and because volatile market demand occasionally required the flexibility in production that more traditional institutional arrangements offered (e.g., Berger and Fiore 1980; Goldthorpe 1984).

The evidence reported before supports the dualism thesis to the extent that we have found some sectors, such as automobiles, telecommunications, steel, and meatpacking, that are hierarchically organized and highly concentrated, whereas others retain a more decentralized, traditional structure, such as dairying, where relatively small farms still conduct most production. We also find evidence for dualism insofar as parts of the production process within some sectors are organized increasingly in a rela-

29 Goldthorpe (1984: 317) suggested that one reason why proponents of convergence theory had neglected the importance of traditionally organized pockets of capitalism was that they were writing during the 1950s and 1960s, a period of economic prosperity that did not experience the problems associated with the stagflation of the 1970s – problems that gave rise to the dualist tendencies he documented. Hence, their perspective was limited historically. We would add that convergence theory also tended to pursue a relatively economic analysis, much at odds with the multidimensional view offered here, and that this, for reasons developed in what follows, contributed to the shortcomings of which Goldthorpe and others spoke.
tively decentralized fashion. Subcontracting to small firms has been rejuvenated in automobile manufacturing, and minimills have developed in steel – two sectors where one would expect the highest levels of hierarchically organized mass production, particularly in light of Chandler's (1977) argument that mass-produced consumer and producer goods bring forth corporate hierarchies. Furthermore, we have seen that in steel and automobiles, managers selected eventually less-hierarchical forms of governance to avoid, at least in part, the costs and problems associated with unionized labor, environmental regulations, and to respond more quickly to changing demand in the marketplace – factors routinely offered to explain dualism.

However, scholars who are interested in production systems based on flexible specialization and diversified quality production have identified recently several problems with the dualism thesis. For example, Linda Weiss (1988: Chap. 1) criticized adherents to the dualist perspective for adopting an overly society-centered view insofar as they generally attribute dualism to problems and imperatives that stem from civil society – a perspective that systematically neglects how the state, confronting geopolitical and international economic crises, often deliberately promotes different institutional configurations within the economy. She also maintained that dualism tends to slip into functionalist and, at worst, teleological explanations when theorists claim that the traditional sector persists because it serves the needs of large-scale capitalism, such as controlling the demands of organized workers or providing certain special machinery for other mass-production firms, and that such needs and, therefore, traditional sectors develop as inevitably as does large-scale capitalism itself. Recognizing that the state plays an important and autonomous role in helping to determine the institutional forms that capitalism assumes, and rejecting functionalist explanations, she concluded that the process of capitalist development is inherently neutral to the extent that there is no preordained form that will necessarily emerge. Although Weiss cast her argument primarily in terms of the development of flexible specialization in Northern Italy, others, examining a wider range of cases, made similar arguments. Charles Sabel (1989) and Wolfgang Streeck (1989), for instance, also suggested that the

30 By flexible specialization, we mean production that utilizes flexible-purpose machines and skilled workers to manufacture special or customized products, a form of production that is quite the opposite of mass production in this sense (e.g., Piore and Sabel 1984). Scholars who prefer the term diversified quality production (e.g., Streeck 1989) refer to the same form of production, but stress that its development may occur gradually through either cooperation among artisanal firms or the decentralization of large hierarchical firms; that this is not a new phenomenon historically in some national economies, such as West Germany; and, thus, that its discovery by scholars does not represent a radically new set of opportunities for organizing industry, as the flexible-specialization literature often suggests.
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The state plays an important role in fostering or inhibiting the development of different types of production; that firms develop flexible specialization and diversified quality production for a variety of reasons, not just to control or more efficiently exploit labor; and that because the interactions among labor, capital, and the state determine (we would say select) the course of capitalist development, certain structural conditions do not inevitably determine this course through teleological or functionalist processes.31

We find some support for this position. First, we have already discussed many cases where the state was responsible for the creation of all sorts of governance arrangements, although not always for reasons having to do with war, economic crises, or the preservation of national security. Society-centered views, as implied before, are often inadequate by themselves. Yet Weiss overstates her case to the extent that she would apparently abandon these explanations in favor of a completely state-centered approach. We advocate a more balanced position between these two extremes, as do Sabel and Streeck. After all, we have also seen cases where the state had very little to do with transformations. (Indeed, we see no reason a priori why either perspective must necessarily take precedence over the other with respect to explaining governance transformations.) In addition, as suggested before, the state plays a much more complex set of roles in the transformation process than Weiss recognized – roles that include not only creating pressures for change, the primary thrust of her analysis, but also facilitating in complex ways the selection process. Second, our cases support the claim that there does not appear to be an inherently teleological momentum to the development of capitalism where sectors evolve toward a common governance arrangement, dualist or otherwise. There is simply too much diversity in the examples that we have explored to support such a position. Furthermore, if one takes seriously the proposition that the selection process is largely a collective interaction among many actors, struggling and bargaining with each other, and that the outcomes of these struggles and bargains are never guaranteed in advance, then teleological arguments are even more difficult to sustain.

Weiss (1988: 6) argued that dualist theories tend to fall into the same trap as the convergence theories that they attack, that is, to argue that traditional sectors survive because they are needed to support large-scale capitalism requires an assumption about the inevitability and general direction of economic development in the first place. The same could be said about recent studies that suggest that advanced capitalist societies are

31 Weiss’s critique of dualism, although insightful in many respects, tends to go a bit overboard. First, some of the dualist theories that Weiss targets are not as society-centered as she claims. Suzanne Berger (Berger and Piore 1980: 144), for example, recognizes the important role the state plays in perpetuating small-firm sectors. Second, although Weiss’s concerns about functionalism are generally well-founded, there are exceptions. Again Berger (Berger and Piore 1980: 146–8) rejects functionalist logic.
undergoing a prolonged period of disorganization. For example, in a fascinating and insightful study of five advanced capitalist nations, including the United States, Scott Lash and John Urry (1987) argued that during the late nineteenth and early twentieth centuries, these societies moved through a period of increasing organization, characterized by high levels of union density, industrial concentration, trade association activity, state centralization, and the strengthening of class-based political parties, but that since the Second World War, many of these patterns have started to be reversed. Thus, we are witnessing, they claimed, the end of organized capitalism. However, the disorganization that Lash and Urry saw transpiring across national political economies is much less uniform within these societies, at least within the United States. On the one hand, we have seen a degree of disorganization, or at least reorganization in a decentralized and less formally organized direction, with the development of minimills in steel, just-in-time subcontracting in automobiles, increasing competition in meatpacking, and declining union strength in all three – evidence that tends to confirm the disorganization thesis. Yet, on the other hand, automobile manufacturers organized promotional networks during the last twenty years to coordinate research and development aimed at solving engine emission and other industrywide problems, and trade associations became more, not less, active in meatpacking as the market for red meat dwindled. In addition, we have seen increasing levels of vertical and horizontal integration in the hospital sector due to the 1965 Medicare legislation, and a dramatic increase in associative governance in the nuclear sector due to the accident at Three Mile Island. Furthermore, there was a shift from associative to hierarchical governance in the California dairy industry – certainly a reorganization, but not disorganization because the decline in associative activity was accompanied by an increase in hierarchy. What we have, then, is a set of examples, albeit an admittedly small one, that illustrates the uneven and multidirectional character of institutional development within and across sectors in the United States, rather than a consistent process of disorganization.

The point is that many of the pitfalls that have marked these debates about the trajectory of capitalist development, including functionalist and teleological reasoning, excessively state- or society-centered explanations, and sweeping historical generalizations, could have been avoided if scholars adopted a sectoral analysis and employed an evolutionary theory of governance transformation, as we have, that theorized the causal mechanisms involved in the selection process. Others have also suggested the need for such a theory, but have offered little in the way of empirical evidence to substantiate their theoretical contributions (e.g., Nelson and Winter 1982; Foster 1987). We have started here to fill these gaps by arguing that actors respond to pressures for change by trying to select new governance regimes within a variety of limits, but that they do so in ways that often lead to
The eventual transformation of these limits themselves. Thus, we have
debated for a theory of governance transformation that neither overem-
phasizes the actor's free will nor succumbs to excessive institutional de-
terminism. In short, we have offered a theory that takes very seriously
Marx and Engels' (1970: 59) famous methodological dictum that "circum-
stances make men just as much as men make circumstances."