The internationalization of production systems. Implications for firms, labour and countries.
Grazia Ietto-Gillies


1. What the book is about
The title of the book under review is very wide-ranging and could cover a variety of topics. This makes it the more compelling for the reviewer to begin by informing the reader about the actual content of the book. Following an introductory chapter, the book is structured in four Parts: I. Causes of International Economic Integration; II. The Rise of Big Business; III. Business Systems Today; and IV. Prospects.

The first of the five chapters in Part I takes the reader through changes in markets and production since WWII and how they moved from national to regional – such as the EU - to international and global; the role of technology and of the state in these processes. The chapter starts with the story of cars after WWII; it gives also examples from other industries including pharmaceuticals, software, civil aircraft, clothing and textiles. It contains a brief introduction to theories of international production. The reader is then presented with a short chapter on the basics of globalization and with one on the economics of international trade which includes both the theory of comparative costs and new trade theories. Guy stresses how economic forces can work in favour or against international integration. In order to understand which forces prevail at any one time and in any one country we need to analyse 'The Politics of International Trade'. This is done in chapter five through historical analysis and political theory. The discourse then moves from the politics of free trade to hegemonic power and then into 'Empire': the resource basis of trade; control with or without colonization; the institutions of colonization.

The first of the three chapters in Part II considers how technological changes affect the structure of industry and how it brings about organizational changes. Guy's historical analysis takes us from cotton textile production in 18th century Britain to steel a century later; from the putting out system to factories. The structural and long term shifts are seen through an analysis of 'universal and cheap key factors' identified as: cotton (late 18th century); coal and iron (early and mid 19th century); steel (late 19th century); petroleum and plastics (first half of 20th century); and microelectronics from mid 20th century onwards. Guy links these technological shifts to industrial shifts, to long waves and, on the political side, to shifts in hegemonic power from Britain to the US.

The changes in industrial structure and technology bring about changes in the organization of production and in the related ownership basis. Chapter eight charts the origin of the modern corporation to the steel era: big machines lead to mass production thus to internalization and big corporations with related separation of management from ownership and the rise of white collar workers. Three theses are analysed on how and why big machines lead to big corporations: Chandler's visible hand, Williamson's assets specificity, and Lamoraux' monopolistic tendencies.

From the analysis of the rise and dominance of big corporations to the analysis of the production process: 'Fordism or the Golden Age of Mass Production' is the topic of chapter nine. The period from 1940 to late 1960s is seen as the golden age of mass production. On the labour relations front, the period was characterized by high wages. Henry Ford publicly declared that he wanted his workers to have wages high enough to be able to afford his cars and, indeed, given the design of his production system, high wages were required to reduce absenteeism and raise effort. Combined with legal protection for unions and other New Deal legislation, this shifted income towards the lower percentiles of the distribution and helped demand rise in line with capacity.

In Part III, the first of the five chapters takes the reader into a discussion of Japanese production systems. Issues of just-in-time production are linked to quality control, to team work, to
job security and trust between different companies whether they work along the supply chain or as rivals. Life-long contracts are seen as key to understanding the firms' interest in training the workforce and the labourers' interest in investing in their own improvement. Different faces of Post-Fordism are discussed, from flexible specialization and relations between large and small companies to institutions and financialization. Why are different production systems not easily adaptable to other countries and environments? Guy presents us here with an interesting section on the actuality of American post-Fordism versus the theoretical one; this is, in effect, a discussion on the Anglo-Saxon type of capitalism of the last three decades. Among his characterization of reality we see: (a) relevance of large corporations; (2) polarization between knowledge economy and low wages service industries; and (3) financialization of the economic system. It all ends with a discussion of the polarization of income distribution and how it is linked to financialization.

The chapter on 'Varieties of Capitalism' follows naturally from the previous one. Guy introduces the issue of the relationship between successful countries versus successful companies at the beginning of the chapter citing Kenichi Ohame (1996, 1999) as a champion of the latter, and Porter (1985, 1990) of the former. The varieties of capitalism are characterised by a combination of configuration of institutions and systems of production, organization and related specialization. Two main systems are presented: Liberal Market Economies – LMEs – and Co-ordinated Market Economies – CMEs – following Hall and Soskice (2001). These systems differ in terms of: (a) labour markets, skills formation and social insurance; (b) capital markets and company governance; and (c) relations between firms be they vertical or horizontal. At the beginning of section 11.3 Guy gives us a short personal anecdote in which he is treated to a little lecture on the technology of entry system into large buildings: he takes it as a starting point for a discussion on the relationship between changing technology, skills advancement and job security. What leads to companies' and individuals' investment in skills? Relationship between job protection and skills formation: back to the Japanese advantages of job security. What bargaining system is more likely to avoid wages-prices spiral? How are pensions systems linked to the political and electoral systems and thus to systems of capitalism? The chapter ends with a discussion of shuttered dreams of convergence at different periods after WWII: convergence of capitalism and communism under the push of mass production; convergence between Japanese and western systems under flexible specialization production; and, more recently, convergence of all economies – developed, developing and transition ones – under the neo-liberal agenda. As this review is written the jury is still open - and it probably will be for much longer - on the fate of the neo-liberal agenda. The impact of the 2008 economic crisis arrived too late for consideration in Guy's book; its full effects will be too late for this review.

Chapter twelve deals with 'Clusters' from the industrial districts in steel and cutlery of Alfred Marshall in 19th century Britain to the Italian clothing districts a century later. Guy stresses the benefits of cooperation between related and unrelated companies in the district; the avoidance of poaching and the development of skills. As in chapter ten we are taken through a discussion of theoretical situations versus the actual existing one: in this case it is 'The classical industrial district model versus actually existing clusters'. The gap between theory and reality is seen in terms of: (a) power dynamics between large firms and SMEs; (b) knowledge and high technology as part and parcel of many modern industrial districts such as Silicon Valley; (c) dominance of finance – as in the Hollywood film industry; and (d) the dependence of many districts on pools of low-wages labour.

The chapter on the 'Newly Industrialized Countries' contains very interesting discussions and comparisons between the Asian Tigers and the less successful industrialization projects of Mexico and South America. How they differ in terms of: organization of production; industry specialization; ownership structure; state institutions and policies; and the weight of history. These are basic issues discussed throughout the book and now used to lead the reader through the problems of development and the variety of developmental paths. Discussions on new NICs (China
and India) follow. Chapter fourteen is about 'Poverty Traps' and it starts with some sobering data on income distribution, life expectancy and GDP per capita; the Washington consensus and the details of its policy recommendation. Are resources a bonus or a curse for development? The cases of Norway, Nigeria or the Dutch disease are mentioned. Empire and underdevelopment gets a brief discussion.

The last, short chapter is the only one in Part IV and looks at 'The Future'. It centres on regionalization versus globalization. Guy predicts the likelihood of the former prevailing and of multinational companies operating regionally rather than globally. The prediction is based both on the regional focus of existing international production networks (already discussed in Chapter 2), and on the assumption that the price of fuel will rise because of a combination of supply constraints, growing demand in the NICs, and, eventually, policies to reduce carbon emissions. Given these tendencies, the MNCs will try to avoid long hauls and remain regional.

2. The contribution of the book

The reader of this review will already have had the feeling that this is quite a dense book or what I would prefer to characterize as a high-content book. Is it a textbook or a research monograph? In his acknowledgements at the beginning of the book Guy tells us that the book originated in his course to Master’s students. Having read the acknowledgement after the book my first reaction was: lucky students. The second was to consider whether the book responds more to our expectations about a classical text – albeit at post-graduate level – or to a monograph. I have come to the conclusion that it is more the second though I can see that it makes an excellent text for someone with a very wide knowledge. I would strongly advise lecturers in organizational analysis or globalization to consider tackling the issues and making use of this book. The effort required in following Guy's multi- and inter-disciplinary treatment is very rewarding.

The specific contribution of Guy to the topics is wide ranging. In general the best parts of the book and the main original contributions are to be found in the analysis of production organization and systems and their link to macro economic issues and to politics. I will try to highlight some of the more contributory elements of the book. (1) The discourse moves with ease from the single corporation to the industry to the macro sphere. (2) It moves also with ease from economics to sociology to business history and politics. (3) Underpinning the book as a whole is a historical perspective and analysis. (4) Theoretical issues are illustrated with the aid of many applied cases. Examples include the following industries: clothing and textiles; motor vehicles; microelectronics; film; software and computers; packaging. (5) The role of the state and of institutions in the evolution of production systems and how they help us to understand why successful systems are difficult to replicate in different countries. (6) A wide-ranging comparative analysis that moves from comparisons between production systems, varieties of capitalisms, industries and countries. Novel points and connections are made in the course of comparisons.

Among the comparative analyses I particularly liked are the ones between theoretical perspectives and actually existing situations. There are, in fact, throughout the book many comments and considerations that cut across chapters and lead the reader to examine aspects of the analysis – the micro or macro or various industries or the role of the state or the type of country – from various perspectives. Guy – indirectly - encourages the reader to critical and comparative analysis in which the role of the state, of institutions and of history are ever present. Over and above the comments one takes from the author, the reader is also often led to go further.

3. Provoking thoughts

This reader feels like going further on the following issues. The first one is touched on in at least two chapters: the one on post-Fordism and the one on clusters. Guy tells us how the Japanese
production system based on life-long contracts may have encouraged investment in higher skills on the part of the corporation and of the individual employee. Similarly in chapter 12 how cooperation within the industrial district may have led to innovation and improved products quality.

Firms can compete and strive for profits via strategies of cost reductions or via strategies of increased revenues and thus linked to markets. The latter includes considerations of quality of products and services offered to the consumer. Both sets of strategies may also include innovation strategies related to the production processes – in the case of cost reduction strategies – and to products in the case of markets and products strategies. When the route of cost reduction via cuts in wages and workforce is barred by institutional factors – as in the case of early Japanese flexible systems or by the intra-firm agreements within the district – then the management is forced to consider implementation of other strategies. Thus institutions that maintain employment and/or force firms into a cooperative stance may be beneficial to the company, the industry and the country in the long run: they force companies into innovation and competition via quality. The Anglo-Saxon system of capitalism with its strong financialization leads to strategies that emphasise short-term profitability. The existence of flexible labour markets makes it easy to cut the wage bill in the short run and thus meet the profitability requirements of the stock markets at the cost of labour conditions and employment. In a more regulated labour market and in a corporate sector less obsessed with short-term stock evaluation the profitability targets are more likely to be geared to longer-term innovation and product quality. Thus the institutional set-up can push a system towards competition to the bottom or to the top. These remarks are in line with Guy's attribution of a key role to institutions in the development of businesses and countries.

In the chapter on 'Clusters' Guy points out how the clusters of SMEs may no longer be an actuality in a world where large corporations are more dominant. This is not just a matter of large corporations working alongside smaller ones. The dominance of large corporations in the same industries as many SMEs is the result of specific strategies and has important strategic consequences for business, industries, governments and labour. One of the by-products of mass production and big business in the decades after WWII was the proximity of many workers employed under the same ownership unit: the same company. This internalization process led to some advantages for the company, as Guy points out. However, it also led to advantages for labour which found it easier to organize and bargain collectively. Those were years of high achievement for labour. The crisis of the 70s eventually led corporations to search for strategies of fragmentation of the labour force. These strategies took two – compatible - paths (Ietto-Gillies, 2005: ch.15). First, location of parts of the production process in other countries; second, outsourcing of large parts of the production process to smaller firms. The public sector also followed outsourcing strategies particularly in Anglo-Saxon countries. Both these strategies were, in effect, strategies of labour fragmentation; either organizational fragmentation or geographical – by nation-state – fragmentation. They made it more difficult for labour working for the same company to organize, bargain together and resist the demands of management. A combination of the two fragmentation strategies also took place via international outsourcing such as sub-contracting to smaller firms in foreign countries. The relationships between the large corporations and its smaller partners – whether in the same or different countries - are certainly different from those in industrial districts. As Cowling and Sugden (1987 and 1998) point out the large corporation has strategic control over the smaller ones. They write: 'A firm is the means of coordinating production from one center of strategic decision-making. A transnational is the means of coordinating production from one center of strategic decision-making when this coordination takes a firm across national boundaries.' (1987: 12; italics in text). According to the authors, given the strategic control of large corporations over smaller ones, the structure remains oligopolistic in spite of the increase in the number of smaller firms and in the employment they may be responsible for. The oligopolistic structure has implications at the micro, meso and macro levels.
4. Conclusions

This is a very interesting and well researched book that can be useful for teaching post-graduate courses and also for people doing research in organizational analysis and production systems. The usefulness derives not only from the range and depth of treatment but also from the myriad of remarks that other researchers can usefully follow up. It is not a book of technicalities, but rather a book of ideas, some of which can be worked out further. This is where young researchers looking for ideas in the field of international production systems can find a useful mine.

The book is written in a clear and pleasing style: little anecdotes and turns of phrase involve the reader in Guy's analysis and conclusions. The author's viewpoint in many political issues is not difficult to guess; however, it is not forced down the reader's throat and this is a strength in the book.

Nonetheless even this enthusiastic reader found some problems. The level of treatment in the various chapters is uneven. In some there is a full research type of analysis and specifically in those dealing with: mass production; post-Fordism; varieties of capitalism; clusters. Other chapters are developed at a lower level of analysis: from globalization to international production to income distribution. It is not clear why in a book whose main and best subject is production systems and their internationalization more weight is given to theories of international trade than to theories of international production. Some readers may argue that the book is already quite long – indeed perhaps too long - and I would agree with them. Well, if pushed on what I would cut I think I would probably propose the chapter on ‘Poverty Traps (n. 14) which reads as rather eclectic and only marginally linked to the rest. I might also add the chapter on 'Globalization' which is not of the same standard as the others and does not fit in so well with them. The last chapter on 'Prospects' might have to be rewritten given the crisis of 2008: a challenge for the next edition of the book.

In the next edition of the book the author and editors may want to look at the following editing issues. I spotted some spelling problems as well as - by chance – a couple of cited sources not reported in the list of references; there may be others. I would have appreciated a list of abbreviations at the beginning of the book.

References