

HARLAND PRECHEL, *Big Business and the State: Historical Transitions and Corporate Transformation, 1880s-1990s* (Albany: State University of New York Press, 2000. Pp. xvi + 317. ISBN 0 7914 4594 1, \$25.95).

This ambitious study analyzes changes in the organization of production and management, the collection and use of managerial and financial information, the structure of the corporation, and the relationship between the firm and the state over the past century and a half. Most of the history here will not be new to business historians, but some of its arguments are thought provoking. The examination of the interaction between the firm and the state, how firms have shaped the rules under which they operate, is one that business historians should emulate. The book includes two original contributions to business history, a case study of an anonymous U.S. steel firm and a quantitative analysis of the determinants of organizational change in modern U.S. corporations.

Prechel addresses three important questions. First, what are the key social and economic institutions that define the social structure of accumulation in different historical epochs? Second, when does the capitalist class unify and act in the interests of the class as a whole and when does inter-capitalist class conflict arise? Third, is the state autonomous from the interests and actions of the capitalist class?

Prechel makes two useful contributions to the literature on social structures of accumulation. First, most of this literature focuses on historical changes in the institutions that assure that labor is supplied in a way that facilitates continued accumulation. Long waves of economic growth are explained by the creation of institutions that guarantee the supply of labor to firms and provide methods for controlling labor and assuring the successful extraction of labor from the providers of labor power. Secular slowdowns in economic growth are explained by the emergence of problems within these institutions for the supply and extraction of labor. Prechel's work enriches this tradition by focusing on the institutions that assure the supply and accumulation of capital, including those within the firm itself, external financial markets, and the state. Contrasting his argument with transactions cost explanations of such changes as efficiency-driven, Prechel argues that changes in firm organization arise when the existing form reaches its limits in terms of its ability to foster continued capital accumulation. That is, organizational change is a response to low and declining profits. New organizational forms and new state rules for the organization and finance of production provide the basis for renewed profitability and renewed capital accumulation.

Second, unlike most histories of U.S. corporate organization which end either with the creation of the multi-divisional firm or its modern Japanese competition, Prechel extends his analysis into the present and, implicitly the future, suggesting that in the twenty-first century the "multi-layered subsidiary firm" (MLSF) is emerging as a key institution for organizing production and raising capital in a new long wave of capitalist accumulation.

Prechel's analysis of the history of the corporate form focuses on changes in its legal organization from holding company in the late nineteenth century, to multi-divisional firm in the mid-twentieth century, to MLSF in the late twentieth century. He largely ignores Chandler's distinction between the unitary and multi-divisional firm and the role that managerial coordination played in increasing the rate of turnover of capital. His explanations of organizational change focus instead on tax, anti-trust, and legal liability issues associated with alternative corporate organizations.

The book suffers from confusion on several key economic points. Prechel argues that firm organization reflects "capital dependency." Essentially, the idea is that when firms are profitable and can finance new and ongoing activities out of retained earnings, they make different choices about internal organization, corporate organization, and relationship to the state than they do when they are forced to turn to external sources (either the state, bank loans, or publicly-traded securities). This point is essentially correct. Prechel's story is particularly useful for highlighting the state's role in financing corporate investment and corporate reorganization -- through direct subsidies, investment tax credits, accelerated depreciation provisions in the tax code, tax-free transfers between units of a corporate family, and tax-free re-issuing of corporate securities. Unfortunately, the author seems confused about some basic elements of corporate finance. Thus he often refers to sales of securities on public exchanges as "internal" finance, even though they rely on external public capital markets, because they do not involve banks. He even seems confused at times that selling bonds *is* borrowing. He argues at length that having several layers of corporate subsidiaries allows corporations to finance their activities internally when the process that he describes is one in which subsidiaries raise money in external markets and then transfer funds to the parent corporation. This may be financially advantageous, either because of tax and liability rules or because of the peculiar way that securities are valued in today's stock market. But it doesn't reduce the corporation's reliance on external capital markets, except to the extent that it happens to reduce the cost of capital. Funds raised by a subsidiary's bond or stock issue are external funds; if the source of finance matters, these funds cannot be treated as though they are simply the same as funds raised through retained earnings.

Prechel argues that the capitalist class acts in a unified manner during periods of economic crisis. During periods of rapid economic growth, divisions emerge, especially between finance and industry. During growth periods, the industrial sector is in a better position to finance accumulation out of retained earnings and can, therefore, act more independently of the financial sector. During periods of contraction, capitalists must cooperate to influence state policy. Drawing on his study of the steel industry, the examples Prechel offers are ones in which the financial sector subordinates its interests to those of the industrial sector in order to allow for an increase in profits in the economy as a whole. I would be loath to make such a generalization, as it seems to me that slowing economic growth can often exacerbate tensions between capitalist class segments. The need for state intervention in support of improved profitability no more creates capitalist class unity than the increasing inequality we have seen in recent years has, in and of itself, created working class unity.

Following Nicos Poulantzas (*Classes in Contemporary Capitalism* Verso 1974), Prechel argues that the state does at times act autonomously from the interests and desires of the capitalist class. But that autonomy is limited, rather than increased, by the growth of the state. In Prechel's view, the creation of state bureaucratic structures, which Theda Skocpol (*Bringing the State Back In*, Cambridge University Press 1985) has argued creates a class of state managers whose actions are determined by their own interests and world view, limits the ability of the state to act autonomously from the interests of the capitalist class, as capitalists are in better position than anyone else to use these bureaucratic structures to influence state policy decisions. Prechel's examination of the steel industry's relationship with the state is the most interesting and entertaining section of the book.

This book draws on a wide variety of sources in legal, business, accounting, political, and economic history to provide a grand synthesis, a big picture of the changes in the fundamental institutions of American capitalism over the last century and a half. Its vision of where capitalism is going seemed to me off mark, focusing on institutions that are designed to rationalize disinvestment from older industries and have yet to prove themselves as a basis for accumulation in new ones. Its vision of how capitalism got here was better in its broad strokes than in its details. But the book's integration of the role of the state and business-state interaction into business history and its use of social theory are examples that business historians should follow.

University of Massachusetts - Amherst

MARGARET C. LEVENSTEIN