ILR Review

Volume 64 | Number 5 Article 12

October 2011

Pivotal Decade: How the United States Traded Factories for Finance in the Seventies.

Shane Hamilton
Georgia State University

Pivotal Decade: How the United States Traded Factories for Finance in the Seventies.

lar others, may be more "intrepid" (p. 252). Does preference bending help to explain why brokerage-based social capital does not appear to spill over while closure-based social capital does? Burt concludes leaving this and other questions for future research.

Scholars interested in rigorous analytical approaches to social capital, social dynamics, or network phenomena will greatly enjoy *Neighbor Networks.* The book's detailed appendices delve deeply into many topics relevant to doctoral-level classes in social network analysis. The book's concluding chapter would be a welcome addition to graduate classes on sociological theory as a rare example of an analytic approach to building formal theory in sociology.

Brian Rubineau
Industrial and Labor Relations School
Cornell University

Labor Markets and Economics

Pivotal Decade: How the United States Traded Factories for Finance in the Seventies. By Judith Stein. New Haven: Yale University Press, 2010. 384 pp. ISBN 978-0-300-11818-6, $32.50 (cloth).

In *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies,* failure is the leitmotif of Judith Stein's excoriation of U.S. policymakers, whose actions and inactions in the 1970s abetted the rise of an unsound economy marked by stunning inequality. Faced with growing trade deficits, stagnant wages, persistent inflation, decreasing productivity, capital flight, and repeated energy shocks, policymakers in both Democratic and Republican presidential administrations repeatedly undermined the broadly shared industrial prosperity that brought so many blue-collar workers into the middle class in the wake of World War II. The seventies, consequently, became the first decade since the Great Depression when workers ended up poorer than they had been at the decade's start, while the once-robust American economy became increasingly dependent upon credit-fueled consumption, paper wealth, and the productive capacity of newly ascendant nations.

This is not a comprehensive study of "the seventies," for Stein's interest lies not in the cultural and social aspects of the decade; rather, her focus is on presidential policymaking. The actions and ideas of organized labor leaders, business spokespersons, legislators in Congress, and foreign leaders fill out the story, but Stein's most heavily mined document base is the presidential records of the Nixon, Ford, and Carter administrations. Stein is thus relatively unconcerned here with how ordinary Americans experienced the various economic woes of the 1970s and instead produces an economically astute reading of how presidents and their economic advisors floundered as the U.S. economy withered. The result of the author's deep and extensive research is a book that challenges the notion of a rightward shift in U.S. politics in the 1970s, as she emphasizes the failures of liberal policymakers and the Democratic Party in general for betraying and disappointing working-class constituents. By the 1980s, conservative figures were able to exploit the resultant vacuum in economic policy.

Building on its historical analysis, the book serves as a sustained argument for today's policymakers to develop new tools to address the current economic crisis. Stein exposes how the roots of the 2008 financial mess emerged far earlier than the explosion of collateralized debt obligations and subprime mortgages of the early twenty-first century. Using her extraordinary facility with economic theory, Stein calls for social democratic approaches and sharp microeconomic interventions to shore up domestic manufacturing and bolster workers' wages rather than rely on either Keynesian or pre-Keynesian macroeconomic interventions, both of which proved unworkable in the 1970s and beyond.

After a chapter surveying the strengths and weaknesses of the American economy during the Keynesian "age of compression" from 1945 through the 1960s, subsequent chapters move chronologically from 1971 to the present. No major economic event of the period is left unexamined, from the collapse of the Bretton Woods system to the oil shocks of the seventies to the implementation of the North American Free Trade Agreement (NAFTA). Every chapter intertwines global and domestic events, though some focus more on one than the other. Chapter 3 on the 1972 presidential election, for instance, confidently dismisses influential histories of southern suburban conservatism and insists that the election was determined entirely by George McGovern's economic illiteracy and the cultural fracturing of the Democratic Party. Chapter 7 deftly explains why a "free trade" agenda based on David Ricardo's centuries-old theory of comparative advantage could not adequately address the trade imbalances wrought by the rise of petroleum-exporting developing nations.

Each chapter shares a central theme: policymakers at every point of the political spectrum remained wedded to economic policies that might have worked well for the United States in the 1950s and early 1960s, but they either performed miserably or inflicted irreparable damage on the American economy as industrialized and industrializing nations challenged U.S. economic might. President Nixon's devaluation of the U.S. dollar in 1971, for instance, provided a short-term boost to the American economy, but ironically, it laid the groundwork for permanent trade deficits that would haunt the United States for the remainder of the century. President Carter's well-intentioned attempts to reform the tax code in 1978 led, through a combination of incompetence and faltering faith in Keynesianism among congressional Democrats, to a massive windfall for Wall Street at the expense of middle-class taxpayers, who then joined the anti-tax revolts of the late 1970s and exacerbated the electoral misfortunes of the Democratic Party.

This book should be required reading for anyone seeking to understand how the economic restructuring of the 1970s led to our current age of inequality. It is a masterful study of the history of capitalism that is driven not by ideology but by a clearheaded interpretation of historical events and patterns. At the same time, Stein's assertive dismissal of social and cultural history in the book's preface may, unfortunately, alienate the very historians who most need to read this book. Her critique of the "backlash" thesis is to be commended, and Stein is quite right to ignore the bizarre cultural fads that are overemphasized in popular treatments of the decade. The book would have been stronger, however, if readers were given more sense of how people outside of Washington, D.C.—rank-and-file workers, business owners and managers, middle-class consumers—experienced and understood the economic world that was crumbling around them. Statistics on GDP and on trade deficits provide clear evidence of the crisis of American capitalism that unfolded in the 1970s, but such numbers-driven analyses have the unfortunate result of privileging the viewpoints of the very people—economists and policymakers—whom Stein blasts for failing to understand what was really at stake in the period. The author's nuanced political history is nonetheless clearly a significant contribution to the field, and her sharp intervention in contemporary debates over taxes, regulation, and trade is a welcome change from the ideological screeds that unfortunately constitute most of today's economic discussions in Washington, D.C.

Shane Hamilton
Department of History
University of Georgia

Sustainable Prosperity in the New Economy? Business Organization and High-Tech Employment in the United States. By William Lazonick. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2009. 357 pp. ISBN 978-0-88099-350-0, $25 (paper).

Best known as a business and economic historian, William (Bill) Lazonick may often escape the view of academics in human resource studies, organizational behavior, and labor relations. This is a mistake. Lazonick's new book, *Sustainable Prosperity in the New Economy*?, is a must-read for scholars and students in these fields. He has chosen to study an important problem in the real world, has marshaled detailed empirical evidence to support his argument, and has used this evidence to critique conventional theory in economics and management.

Lazonick focuses on labor and the prospects for sustainable productive enterprises that will support the U.S. economy. The central labor problem he addresses is the dramatic rise in job instability and inequality in recent decades—the highest since the last great depression. This change, he argues, is driven by a central business problem: a shift in corporate strategies away from investment in productive innovations towards investment in financial engineering. That is, Lazonick locates the problems of sustainable enterprise and employment squarely at the level of firms, organizations, and the decisions that real people make—not at some abstract level of market liberalization and globalization.

Lazonick's important contribution to the literature is to make the link between changes in capital strategies and operational and employment strategies. His analysis is particularly timely as we observe the behavior of firms in the current post-recession period. U.S. corporate profits have reached historic highs, corporations are sitting on trillions in cash that they will not invest in productive activities, and unemployment—which inched downward in 2009 and 2010 with help of government stimulus packages—had risen again, to 9.1% by mid-2011.

What accounts for this paradox? According to Lazonick, under the "old economy" business model, the success of investors, managers, and workers was linked together; but in the new economy model, these actors' welfare is decoupled. Chapters Two and Three develop these arguments. The critical difference between the two models is in how capitalists make money. In the "old economy," also referred to as managerial capitalism, firms made money by using retained