

Civic Engagement, Social Capital, and Economic Cooperation

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In Making Democracy Work and a recent article in The American Prospect, Robert Putnam argues that the same factors he believes contribute to a healthy polity—civic engagement and social capital—also foster economic prosperity. They do so, in his view, by encouraging cooperation. The author argues that Putnam is right to emphasize the value of cooperative economic behavior, but that he overstates the contribution of civic activism and social capital to both cooperation and economic success. The principal economically beneficial forms of cooperation tend to be products of institutional incentives rather than social capital. And civic engagement, although helpful in accounting for economic performance differences between Italy's north and south, is of little explanatory utility beyond the Italian case.

An unfortunate consequence of the extraordinary amount of attention Robert Putnam's recent writings on politics and democracy have received is that his discussion of the economy has been largely overlooked. In *Making Democracy Work* (1993a) and an article in *The American Prospect* on "The Prosperous Community" (1993b), Putnam argues that the same factors he believes contribute to a healthy polity—civic engagement and social capital—are critical to a healthy economy as well.

Putnam's argument consists of three propositions: (a) Economic progress and prosperity require cooperation; (b) A key source of cooperative economic behavior is social capital; and (c) Social capital, in turn, is a function of civic engagement. I shall argue that his emphasis on cooperation is entirely salutary but that social capital and civic engagement are less integral to successful economic performance than Putnam suggests.

SOCIAL CAPITAL AND COOPERATION

The notion that nonmarket or extramarket forms of cooperation are vital to a healthy economy has been well established theoretically and empirically in recent years (Aoki, 1988; Applebaum & Batt, 1994; Dore, 1986, 1987; Hollingsworth, Schmitter, & Streeck, 1994; Kenworthy, 1995; Porter, 1992; Powell, 1990; Pyke, Becattini, & Sengenberger, 1990; Soskice, 1991; Streeck,

1992; Womack, Jones, & Roos, 1990). Economists have long recognized that markets fail under certain conditions, but a host of recent research suggests that there are in fact numerous areas in which competition is usefully complemented by economic cooperation. These include, among others, cooperation between the state and interest groups, between firms and their investors and suppliers, between competing firms, between labor and management, and between functional divisions within firms. Comparative analysis strongly suggests that cooperation is a key contributor to successful national economic performance in affluent democracies (Hicks & Kenworthy, 1997; Kenworthy, 1995, chap. 6). But how does such cooperation arise?

Putnam's answer is social capital. By this he primarily means trust. There are various ways to conceptualize trust, and Putnam never clearly defines it. His use of the term, however, is similar to the colloquial understanding of it: confident expectations that others will "do the right thing," even when incentives or constraints do not encourage or compel them to do so.¹ Trust enables economic actors to cooperate in prisoners' dilemma-type circumstances, in which each would benefit from cooperation but each has an incentive not to cooperate. "Fabrics of trust enable the civic community more easily to surmount what economists call 'opportunism,' in which shared interests are unrealized because each individual, acting in wary isolation, has an incentive to defect from collective action" (Putnam 1993a, p. 89).

A classic example is employee training. In many instances, firms would be better off by providing training for their workers. But each individual firm knows that if it invests in such training, other firms may "poach" its employees (i.e., entice them to leave by offering slightly better pay), thereby enjoying the benefits of better-skilled employees without bearing the cost. Alas, if all companies act rationally and skimp on training, none will have a highly skilled workforce. Another example involves a wage-bargaining strategy in a decentralized labor movement. Aggressive bargaining for each individual union is rational on purely defensive grounds because if workers in other firms win high-wage increases, there will likely be high inflation, so a comparable pay hike is needed just to break even. And if a union succeeds in getting a high-wage raise while other unions do not, it will have higher pay in conjunction with low inflation, which is the best outcome among the various possibilities. Regardless of what it believes other unions will do, therefore, the rational choice for each union is to demand a substantial pay increase. Of course, if every union follows this logic, there will indeed be high inflation, which will lessen the value of wage gains and reduce the price competitiveness of the country's firms relative to their global competitors.

Social capital, Putnam suggests, makes cooperative behavior reasonable in spite of such incentives. If I trust that nearby firms will not try to poach my employees, I can feel confident spending time and money to train them. If wage negotiators for each individual union can feel assured that others will bargain moderately, they can request modest pay raises with little fear that their members will see the raise rendered null by high inflation.

The principal empirical evidence on which Putnam (1993b) draws is the industrial districts of north-central Italy, which feature “networks of collaboration among workers and small entrepreneurs” (p. 38). He also points to the “dense social networks” of East Asian economies such as Japan, Korea, Taiwan, and China. In these countries, he argues, well-developed trust relationships encourage economic actors to cooperate in a variety of productive efforts that fall outside the scope of market relations (Putnam, 1993a, 1993b).

INSTITUTIONAL INCENTIVES AND COOPERATION

There is little question that trust can contribute to cooperative economic behavior. Trust lubricates economic relationships, making cooperation more likely. But is it the principal reason why such cooperation occurs?

Cooperation can also be induced by structuring incentives in such a way that actors no longer face a prisoners’ dilemma-type situation. Institutional arrangements, such as long-term relationships and formal organization, can encourage cooperation whether trust is high or low. In Germany, for example, industry associations require members to fund and participate in wide-ranging apprenticeship system, which provides classroom and on-the-job training for more than 400 occupations (Streeck, 1992). These associations make firms’ investments in worker training rational by forcing other firms to make similar investments. Poaching is not entirely eliminated, but because each company is required to train its own workforce in any case, the threat is greatly reduced. Institutional arrangements also help to overcome the wage-bargaining prisoners’ dilemma. When wage negotiations are conducted by a single national confederation or heavily influenced by a relatively small number of unions, these bodies have a strong incentive to bargain moderately because much of the costs of excessively high wage gains—higher inflation or unemployment or reduced international competitiveness—will eventually be borne by those they represent. Union coordination, when combined with coordination on the business side, thus tends to encourage wage restraint. This helps explain why the rate of wage increase has been more moderate in nations such as Austria and Norway than in Italy or the United Kingdom (Crouch, 1985; Kenworthy, 1996b; Soskice, 1990).

As I have argued in more detail elsewhere (Kenworthy, 1995, chap. 6), there are nine chief types of economic cooperation that can be expected to enhance economic welfare and progress. For each type, institutional arrangements are used in various nations that effectively foster cooperative behavior without relying on trust. Centralized business confederations help to reduce rent seeking by individual firms and industries. Coordinated wage bargaining, facilitated by centralized or concentrated union movements, encourages wage restraint. Cooperation between government and interest groups, fostered by coordination within interest groups and among government agencies, generates productive, coherent state policies. Long-term, voice-based relationships between firms and their investors permit long-time horizons for management. Long-term, voice-

based relationships between purchaser and supplier firms foster heightened communication and greater supplier willingness to invest and raise productivity. Selective incentives and other supports provided by industry associations or governments encourage alliances among competing firms, which lead to greater investment in R&D and employee training, permit quicker agreement on standards, and provide assistance with matters such as financing, technology diffusion, design, accounting, and marketing. An employment guarantee by firms generates greater cooperation between labor and management; workers are more willing to share valuable knowledge, accept productivity-enhancing technology, and upgrade skills. Participatory teamwork arrangements, by encouraging employees to monitor their peers to prevent shirking, engender greater work effort. Multidivisional teams that link various departments within firms yield a quicker, more effective transition from R&D through production. Table 1 summarizes these nine forms of cooperative behavior, the resulting economic benefits, and the institution(s) promoting the cooperation.

But isn't trust critical to creating these cooperation-inducing institutions in the first place? Sometimes yes, but often no. In many instances, these institutions are the (intended or unintended) results of historical struggles and compromises. For example, it is sometimes suggested that large Japanese firms offer workers an employment guarantee because management can trust workers to hold up their part of the bargain by working hard (Fukuyama, 1995). But Japan's lifetime employment system grew out of a compromise solution to a series of bitter labor-management struggles following World War II (Kenney & Florida, 1988). Once created, the system became self-reinforcing. Management sticks to it because it heightens employee commitment and because a firm that begins to lay off employees will quickly develop a bad reputation, making it difficult to attract strong new recruits. Employees work hard for two reasons. They know they will be with the company for a long time, so they have an incentive to improve the company's fortunes. In addition, the employment guarantee is not absolute, and there is a strong incentive to avoid having to start over with a new firm because pay is based heavily on seniority.

In the same way, cooperation between firms and their investors in Germany, Japan, and a number of other nations emerged in response to underdeveloped capital markets, which forced companies to rely heavily on large investors (Zysman, 1983). It is also the product of lenient financial regulations, in contrast to the United States, where laws strongly discourage financial institutions from holding large equity stakes in nonfinancial companies. Again, because long-term investor-firm relationships have virtuous consequences for both parties, once created they tend to be self-reinforcing. Trust can certainly help to foster such relationships, but they can occur even if trust is limited.

Perhaps most telling in this regard, Putnam (1995, 1996) argues that trust has been declining in the United States over the past generation. But if that is so, and if trust is the key to cooperative economic behavior, how can we account for the fact that American firms have only recently begun to experiment with some important types of cooperation, such as R&D alliances, long-term part-

TABLE 1: Economic Cooperation and Institutional Incentives

<i>Actors Cooperating</i>	<i>Economic Benefits</i>	<i>Institution(s) Promoting Cooperation</i>
1. Firms across industries	Reduced rent seeking	Centralized business federation
2. Unions	Wage restraint	Centralized and/or concentrated labor movement
3. Government and interest groups	Coherent, productive government policy	Unified government and centralized interest group organizations
4. Investors and firms	Extended time horizons for firms	Long-term commitment by investors—a product of investors having large ownership stakes and a means of effectively influencing company decision making
5. Purchaser and supplier firms	Heightened communication, greater supplier willingness to invest and raise productivity	Long-term commitment by purchasers
6. Competing firms	Greater investment in R&D and employee training; quicker agreement on standards; assistance with financing, technology diffusion, design, accounting, marketing, and so on	Industry trade associations or government incentives
7. Labor and management	Greater willingness on the part of workers to share valuable knowledge, accept productivity-enhancing technology, and upgrade skills	Long-term commitment by employers (employment guarantee)
8. Workers	Heightened work effort	Participatory work teams
9. Functional departments within firms	Quicker, more effective transition from R&D to production	Multidivisional teams that link departments along the production chain

nerships with suppliers, employee participation, and multidivisional teams? What is happening is simply that firms are searching for new ways to compete more effectively, and these are among the strategies some have decided to try (Applebaum & Batt, 1994; Byrne, 1993a, 1993b; Smith, 1995; Waterman, 1994). To the extent these efforts generate cooperation and improve performance, they may become self-sustaining. In the process they will likely foster trust, but such trust will be largely a consequence, rather than a cause, of cooperation.

Trust, then, appears to be a helpful but not a necessary precondition for economically beneficial cooperative behavior. Indeed, each of the principal forms of economic cooperation I have outlined can be traced, in most empirical instances, to institutional incentives that make cooperation the rational choice for economic actors. This is good news for a nation such as the United States,

where trust is, seemingly, comparatively scarce and on the decline. Despite this malady, American firms have managed to cooperate more extensively in various ways—with suppliers, competitors, and labor—in the past decade than was previously the case.

CIVIC ENGAGEMENT AND THE ECONOMY

Putnam's primary focus is on civic engagement—participation in voluntary associations, along with activities such as voting and reading newspapers. He argues that civic engagement builds social capital by fostering personal interaction. Repeated interaction facilitates communication and amplifies information about the trustworthiness of others. It also helps to engender "sturdy norms of generalized reciprocity: I'll do this for you now, in the expectation that down the road you or someone else will return the favor" (Putnam, 1993b, pp. 36-37). For these reasons, according to Putnam, civic engagement is a key source of economic cooperation and prosperity.

For empirical support, Putnam draws on the stark contrast in civic engagement between regions in northern versus southern Italy. For nearly 1,000 years the former have been characterized by greater civic activism—from mutual aid societies to choral societies, cooperatives to neighborhood associations—than the latter (Putnam, 1993a, chap. 5). It is surely no accident, he argues, that the industrial districts so integral to Italy's recent economic progress are concentrated in those north-central regions of the country that feature the most long-standing and extensive patterns of civic engagement. In Putnam's (1993a) words,

Typically singled out as essential for the success of industrial districts, in Italy and beyond, are norms of reciprocity and networks of civic engagement. Networks facilitate flows of information about technological developments, about the creditworthiness of would-be entrepreneurs, about the reliability of individual workers, and so on. Innovation depends on "continual informal interaction in cafes and bars and in the street." Social norms that forestall opportunism are so deeply internalized that the issue of opportunism at the expense of community obligation is said to arise less often here than in areas characterized by vertical and clientelistic networks. What is crucial about these small-firm industrial districts, conclude most observers, is mutual trust, social cooperation, and a well-developed sense of civic duty—in short, the hallmarks of the civic community. (p. 161)

I have little quarrel with Putnam's explanation of regional variation in economic performance in Italy. Because the industrial districts of north-central Italy are centered around multitudes of small firms that interact with one another and with the local labor force in assorted ways, it is reasonable to suspect that social interaction in local sports clubs and choral societies plays an important role in facilitating cooperative economic behavior, thereby enhancing economic performance. But how relevant is civic engagement beyond the Italian case? For example, how helpful is civic engagement in accounting for economic performance differences among the affluent industrialized countries?²

There is reason for skepticism. Industrial districts, although not unique to northern Italy, are not nearly as prominent in any other industrialized nation. Furthermore, if trust is of limited importance in fostering the types of cooperative economic behavior that are prominent in some other countries, civic engagement may have little to contribute. Civic engagement cannot help us to understand why Austrian labor unions consistently moderate their wage demands, why large Japanese firms successfully build long-term relationships with their suppliers, why German banks forge long-term partnerships with firms of which they are part owners, or why American companies such as Procter & Gamble make effective use of self-directed work teams.

Two indicators of civic engagement are available to help us explore this issue. One is the share of the population in various countries that participates in at least one voluntary organization. These data are from the 1991 World Values Survey. Respondents were asked if they had volunteered for any of the following types of organizations in the past year: social welfare services for elderly, handicapped, or deprived people; religious or church organizations; education, arts, music, or cultural activities; trade unions; political parties or groups; local community action on issues such as poverty, employment, housing, and racial equality; Third World development or human rights; conservation, the environment, and ecology; professional associations; youth work (e.g., Scouts, guides, youth clubs); sports or recreation; women's groups; the peace movement; animal rights; and voluntary organizations concerned with health. These figures represent the best available cross-national measure of participation in civic associations. (Indeed, they seem preferable to the measure Putnam [1993a] uses in *Making Democracy Work*—the number of organizations per capita in a region.) The second indicator of civic engagement is average voter participation (as a share of eligible voters) in various countries between 1945 and 1989 (Lane & Ersson, 1990). Although voter turnout seems less clearly linked to trust and economic cooperation, the degree to which citizens are willing to participate in the electoral process may tell us something about the prominence of civic participation norms that foster trust.

Table 2 shows zero-order correlations between these indicators and 1960 to 1994 period averages for three major components of economic performance—productivity growth, unemployment, and inflation—across the 18 richest industrialized democracies. (The country scores themselves are shown in the Appendix table.) The voluntary association measure is problematic because it is measured near the end of the time period being analyzed. However, data for similar measures of civic participation for earlier years are less reliable, so it will have to do. In any event, it does not seem unreasonable to assume a degree of constancy in *relative* participation rates across countries. The correlations in Table 2 suggest strongly that civic engagement has little or nothing to do with national economic performance success in recent decades. The only indication of a beneficial effect is a marginally significant inverse association between volunteering and inflation. Results of regression analyses (not shown here) that include commonly used control variables and examine subperiods of years (e.g.,

TABLE 2: Correlations Among Civic Engagement, Cooperation, and Economic Performance Measures for 18 Affluent Industrialized Nations, 1960 to 1994

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Volunteer	—						
2. Voting	-.38	—					
3. Macrolevel cooperation	-.02	.30	—				
4. Firm-level cooperation	-.09	-.03	.69***	—			
5. Productivity growth	-.61	.08	.45**	.69***	—		
6. Unemployment	-.14	-.28	-.62***	-.48**	-.01	—	
7. Inflation	-.44*	.21	-.35*	-.15	.15	.28	—

NOTE: For country scores, definitions, and data sources see the Appendix.

* $p < .10$, one-tailed test. ** $p < .05$, one-tailed test. *** $p < .01$, one-tailed test.

1960-1973, 1974-1979, 1980-1989, 1990-1994) separately suggest the same conclusion.

Nor does civic engagement appear to be related to economic cooperation itself. Drawing on the growing literature on cooperative economic behavior, I have assigned scores of 0, .5, or 1—representing weak, moderate, and strong cooperation, respectively—to each of these 18 nations for each of the nine types of cooperation discussed earlier in each year between 1960 and 1994 (Kenworthy, 1996a). Factor analysis suggests that these nine forms of cooperation load on two dimensions: a macrolevel factor and a firm-level factor (Hicks & Kenworthy, 1997). The average scores for these two dimensions for each nation are shown in the Appendix. As the correlations in Table 2 make clear, civic engagement is not related to economic cooperation. Because the small, firm-based economic cooperation that characterizes northern Italian industrial districts is of limited relevance in most other industrialized nations, this is not especially surprising.

WHERE DO WE GO FROM HERE?

There is a good deal of merit in Putnam's discussion of the economy. He is right to emphasize the importance of cooperation as a complement to market competition. And it is certainly true that trust can help promote cooperative behavior. But in his exclusive focus on trust as a source of cooperation and on civic engagement as a source of trust, Putnam makes too much of the Italian case. Differences in civic engagement may help account for the variation in economic performance trends between northern and southern Italy in recent decades, but they are of no help in explaining such variation across the affluent democracies over that period. This may be because civic activism is not a

precondition for the formation of trust among economic actors or because trust itself is not the key to cooperative economic behavior. I suspect both.

What, then, can be done to improve economic performance here in the United States? The solution, as Putnam (1993b) rightly notes, probably does not lie in more time spent in PTA or Lions Club meetings. Instead, we need to find ways to encourage institutional arrangements that promote the types of cooperation described in Table 1. It is very unlikely, of course, that this country could ever achieve the degree of centralization of business or labor organizations that exists in small nations such as Austria or Norway, which have labor forces about 3% the size of ours. But greater cooperation within and between firms *is* possible in the U.S. context, despite our apparent decline in social capital.

To some extent it is already happening. Firms in a variety of industries—from automobiles to household products to aircraft—have in the past decade begun to experiment with closer, long-term relationships with their suppliers, alliances with competitors, and multidivisional teams to oversee the research-design-development process. A growing number of companies have implemented participatory work teams. Some have also backed these with an employment guarantee, although many firms have dropped whatever partial commitment they once had to job security in preference for keeping up with the downsizing craze.

Government policy can also help to encourage cooperative institutions, as Putnam (1993b) points out. The National Cooperative Research Act of 1984, which substantially loosened restrictions on cooperative research among U.S. companies, has spurred a proliferation of joint ventures. Since the mid-1970s, tax breaks have been provided to firms that use employee shareholding programs; the same could be done to promote worker participation schemes or employment guarantees. Japan and Germany use government incentives to foster cooperation in employee training programs among firms (often competing firms) within a geographical area. The Clinton administration entered office in 1992 committed to instituting a play-or-pay training tax but later shelved the idea in the face of business opposition. Long-term partnerships between investors and firms could be promoted by allowing banks to hold significant equity stakes in nonfinancial companies, or better yet by altering the tax structure on capital gains so that investments held for longer periods receive more favorable tax treatment or by imposing a transaction tax on the sale of shares held for less than a specified amount of time.

Given the present political climate and congressional balance of power, an expansion of government efforts to enhance economic cooperation seems unlikely in the near future.³ Whether American firms will press further in the direction of cooperative relationships is uncertain. If the comparative experience of the past several decades is any guide, their failure to do so will be to our collective detriment.

APPENDIX
Country Scores for Civic Engagement, Cooperation, and Economic Performance Measures

	Volunteer (%)	Voting (%)	Macrolevel Cooperation	Firm-Level Cooperation	Productivity Growth (%)	Unemployment (%)	Inflation (%)
Australia		92	.21	.09	1.9	5.2	6.3
Austria	26	92	.98	.29	2.9	2.4	4.3
Belgium	28	87	.76	.29	2.9	6.3	4.7
Canada	43	75	.09	.09	1.7	7.3	5.2
Denmark	26	85	.78	.29	2.1	5.1	6.6
Finland		78	.92	.42	3.3	4.7	7.0
France	23	76	.45	.11	3.1	5.6	6.1
Germany	31	85	.94	.43	2.8	3.8	3.5
Ireland	27	73	.11	.07	3.7	9.6	7.9
Italy	23	88	.50	.46	3.6	7.7	8.4
Japan		72	.92	.93	4.7	1.9	5.2
Netherlands	37	88	.65	.10	1.9	5.1	4.4
New Zealand		89	.17	.09	1.3	2.8	8.0
Norway	37	81	.95	.39	2.9	2.3	6.3
Sweden	39	86	.95	.34	2.2	2.5	6.6
Switzerland		59	.58	.29	1.7		3.9
United Kingdom	16	77	.09	.10	2.2	5.4	7.5
United States	47	59	.09	.13	1.2	6.0	4.8

NOTE: Volunteer = share of the population having participated in a volunteer organization in 1990 (World Values Study Group, 1991). Voting = average share of eligible voters voting in national elections, 1945 to 1989 (Lane & Ersson, 1990). Macrolevel cooperation = average score on cooperation types 1-4 and 7 in Table 1, 1960 to 1994 (Kenworthy, 1996a). Firm-level cooperation = average score on cooperation types 5-6 and 8-9 in Table 1, 1960 to 1994 (Kenworthy, 1996a). Productivity growth, unemployment, and inflation = averages for 1960 to 1994 (Organization for Economic Cooperation and Development, 1995, 1996).

NOTES

1. A broader definition would be simply: confident expectations that others will act in a certain way. But most people would not, for instance, say they can "trust" a poor, inner-city gang member to steal a car or the CEO of a large American corporation to lay off 5,000 employees. They would refrain from using the term because these sorts of actions are considered undesirable and because they are fairly predictable given the incentives facing the actors.
2. It might also be asked how relevant the argument is to explaining within-region variation in Italy itself. One recent assessment (Goldberg, 1996) suggests reason for skepticism.
3. One possible exception is the repeal of the Glass-Steagall law, which discourages banks from taking ownership stakes in nonfinancial companies.

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