

Pardi, Tommaso

**Article**

## From markets as politics to the politics of markets: Unpacking the relationship between state and firms

economic sociology\_the european electronic newsletter

**Provided in Cooperation with:**

Max Planck Institute for the Study of Societies (MPIfG), Cologne

*Suggested Citation:* Pardi, Tommaso (2014) : From markets as politics to the politics of markets: Unpacking the relationship between state and firms, economic sociology\_the european electronic newsletter, ISSN 1871-3351, Max Planck Institute for the Study of Societies (MPIfG), Cologne, Vol. 15, Iss. 2, pp. 7-16

This Version is available at:

<https://hdl.handle.net/10419/156028>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

# From Markets as Politics to the Politics of Markets: Unpacking the Relationship Between State and Firms

By Tommaso Pardi

CNRS – Laboratoire IDHE, ENS Cachan

[Tommaso.Pardi@ens-cachan.fr](mailto:Tommaso.Pardi@ens-cachan.fr)

The analysis of the political relationships between states and firms has played a pivotal role in the neo-institutional renewal of economic sociology. During the last twenty years this literature has produced remarkable studies showing how stable markets emerge when incumbent firms manage to control competition through state intervention (Fligstein 1990; Fligstein 2001); how political institutions shape markets because industrial policies embody culturally constructed ideas about efficiency that firms enact through their strategies (Dobbin 1994a; Dobbin 2004); how incumbent firms define and qualify the content and the outcomes of political institutions through their policies and practices (Dobbin 2009); and how ultimately not only the emergence and reproduction of markets as fields, but also their destabilization stems “either directly or indirectly from ‘shocks’ set in motion by actors in state fields” (Fligstein and McAdam 2012, 207).

Yet, most of this literature has conceived of the state “as an exogenous force” (Fligstein and McAdam 2012, 5) and approached state-firm relationships mainly from a macro-institutional perspective. In particular, the way the state interacts with firms in building market institutions has been almost systematically treated as a black box whose behaviour could be deduced from the historical interplay between changes in the macro structure of markets (e.g., changes in the relative positions of incumbents and challengers) and changes in the political institutions. Typically, the problem of characterizing the underlying dynamic of institutional creation, reproduction and change in markets has been broken down into normative hypotheses to be tested on different types of historical datasets. If this approach has proved highly productive as far as it has allowed the coverage of extended periods of time with relatively few resources, and permitted researchers to confront orthodox economic theory on its own ground of quantita-

tive analysis and positivist methodology, it does however entail certain limits.

In this paper we will discuss three in particular: its incapacity to grasp political institutions as social processes; its difficulty in producing more accurate theories of state action in the economy; and its lack of sensitivity to the cumulative effect of piecemeal endogenous institutional change on the dynamics of market fields. It is not our intention though to engage in the usual criticism developed by the proponents of more qualitative micro “realist” methods against the advocates of more quantitative macro “positivist” methods, but rather to stress the need to build some form of articulation between the two if we want to capitalize on the theoretical headways made by macro-institutional works in this field of research.

To advance in this direction we propose two steps: first, to endogenize policymaking in the analysis of market fields, and second, to equip macro-institutional hypotheses with more *inductive methods* to unpack the black box of the state-firm relationship. In other words, rather than just thinking of markets “as politics” (Fligstein 1996) we propose to look into the politics of markets as social processes which are at least in part endogenous to market field dynamics. To be fair, this is also what Fligstein and McAdam have proposed (2013, 205-206), at least in theoretical terms, but it is not what they do in their case studies, where they stick to macro-institutionalist lenses and keep treating policymaking in deductive terms<sup>1</sup>.

As a way to illustrate our perspective, we will rely in the second and third sections of the article on our analysis of the decline of the British motor industry under Margaret Thatcher (Pardi forthcoming). This is an interesting case study for our purposes for at least two reasons. First, because it is a topic that has been extensively studied, but in which little attention has been paid to the role played by government policies in the decline of the British motor industry during the 1980s<sup>2</sup>. Second, all the dimensions of state-firm relationships that have been highlighted as im-

portant by macro-institutional hypotheses are present here: a key national industry, controlled by powerful incumbent firms, which is exposed to destabilizing exogenous shocks and to radical shifts in government policies, and eventually undergoes a profound transformation of its field structure.

We will use the case study, firstly, to test the “limits” of macro-institutionalism in dealing with the black box of state-firm relationships (section 2), and then to show what can be gained, both in terms of explanatory power and theoretical accuracy, by unpacking the underlying policy-making as a social process (section 3).

## 1 Macro-institutional approaches and their limits

As a range of ethnographic researches in the field of organizational studies has convincingly argued (Tolbert and Zucker 1999; Zucker 1987; Boden 1994), macro-institutional approaches in economic sociology fail to seize institutionalization as an active social *process* and only treat it as a *state* (Dobbin 1994b). For our purposes, this means that macro-institutionalism either takes political institutions at their face value, by relying for instance on the way politicians, civil servants and industrial representatives publicly introduce and/or justify institutional changes using consensual notions of efficiency and public good, or rationalizes ex-post the aim of political institutions by looking at their perceived outcomes in the given market fields. Both these options are problematic. The first because it gives the impression that all political action is shaped by values, while, in fact, what makes actions “political” is that they are made *in the name of values* (Jullien and Smith 2011). The second because it establishes a functionalist link between the perceived outcomes of given institutions, the interests of certain parties, and the underlying purposes of policy making, as if public action in the economy was always perfect and systematically succeeded in achieving its precise aims.

A second limit of macro-institutional approaches concerns the normative hypotheses it produces on policymaking and state-firm relationships. Whereas these hypotheses make insightful predictive statements about the social processes involved in policymaking, these statements tend to be general enough to be very difficult to falsify as far as they always seem capture at least a part of the “truth” (Goldstone and Useem 2012). Because of that very reason, these statements can vary significantly from one research to another without generating internal debate in the disci-

pline. As a result, cumulative work in this field of economic sociology does not seem to produce more accurate theories of state action in the economy, but a patchwork of distinct claims tied together by a loose consensus on the socially constructed fabric of markets and economies (Fligstein and Dauter 2007; Dobbin 2004). For instance, the influential works of Frank Dobbin and Neil Fligstein on the social construction of markets are almost systematically cited alongside one each other as if they agree on the underlying processes inherent to the creation, reproduction and transformation of markets, but in fact they don't. On the one hand, Dobbin claims that the structure of markets in each national economy is determined by the cultural values embedded in policymaking and that institutional changes happen when there are shifts in values or in the way values are interpreted (Dobbin 1994a). According to Dobbin, policymaking is therefore exogenous to markets, and dominant market actors have to adapt to the institutional environments produced by the state. On the other hand, for Fligstein it is the “field structure” of each market that shapes the political institutions that allow for its reproduction and ultimately confer on each market its structural stability (Fligstein 2001). If market institutions do eventually change after a certain period of time, it is because the market structure has been changed under the effects of exogenous shocks. Thus, according to Fligstein, while policymaking remains exogenous to markets because the state is considered as an autonomous field, the outcomes of policymaking can be considered as endogenous to markets because they tend to reproduce the interests of dominant firms in each market field.

What Dobbin and Fligstein *do agree* on is the fact that both “ideas about efficiency” promoted by the states, and “conceptions of control” promoted by dominant firms in markets, are social and cultural constructions that result from contingent historical processes involving agency and power. But this loose consensus does not take away either their fundamental disagreement about the underlying dynamics of policymaking and institutional changes, or the surprising lack of debate and research on how to articulate these divergent but well established views in any common frame.

A third important limit of macro-institutionalist approaches concerns the characterization of institutional change. According to macro-institutionalism, institutional change only happens – in markets or elsewhere – when institutions are formally changed by “exogenous” state action in reaction to “exogenous” shocks and/or shifts in political values. An

important critique of this view has been developed by political sociologists who have argued that institutional change happens continuously, even when political institutions do not formally change (Streeck and Thelen 2005; Mahoney and Thelen 2009). According to this view, self-reflective actors are constantly engaged in political projects that entail subtle but significant cumulative changes in the way political institutions are interpreted and implemented within and between markets (Jackson 2005). From a distinct but similar perspective, Lawrence et al. (2009) have introduced the notion of institutional work in order to grasp how individuals endogenously build, sustain and transform social institutions within organizations. These critics raise an important challenge for macro-institutional approaches: how to articulate endogenous and continuous “piecemeal” change with the effects of exogenous shocks in the analysis of market fields’ dynamics. This challenge can also be linked to the first two limits highlighted above insofar as it should push researchers to look at institutional change in markets’ policies as a social process rather than as a succession of states, and to eventually take interest in what is happening inside the black box of state-firm relationships rather than deducing its functioning from outside.

In the next section we will follow this route to understand what happened to the British motor industry under the governments of Margaret Thatcher in the 1980s. We will first argue that while government’s policies clearly played a decisive role in the decline of the “national champion” British Leyland, the rationale behind these policies and their precise wider implications escape deductive reasoning and remain until today an unsolved mystery. We will then show how looking into the black box of policymaking not only provides a surprising solution to the mystery, but also qualifies macro-institutional hypotheses about policymaking and state-firm relationships in important ways.

## 2 A case study in decline: the British motor industry under Margaret Thatcher

Up to 1973, British Leyland (BL)<sup>3</sup> dominated the British motor industry. BL was the post-war result of a series of government-driven mergers between indigenous carmakers to create a “national champion”. By the early 1970s, BL controlled 40% of the domestic market, represented over 50% of domestic production, and exported about 40% of its production. While its profitability was criticized as low, the company had not displayed a single year of losses since its last merger in 1968. The other two main

domestic producers were the long-established subsidiaries of Ford (Ford UK) and General Motors (Vauxhall), which controlled respectively about 20% and 10% of the domestic market.

In 1973 two important changes happened in the economic environment of BL. First, following the UK entry in the European Union, duties on imported cars from the EU dropped from 11% to nothing. Second, the first oil shock caused a sharp drop in the sales of new cars in all the major world markets which increased international competition, in particular by the Japanese whose aggressive export-oriented strategy was backed by significant cost advantages (Altshuler and Roos 1984; Freyssenet et al. 1998).

It is generally recognized by business historians that BL, which had not completed the rationalization of its production facilities after the last wave of mergers and was affected by several production problems, was particularly badly equipped to face the economic storm that followed<sup>4</sup>. By 1975, production volumes were already 34% below their 1972 level and the company had to be rescued by the state in order to avoid bankruptcy. In order to restore BL’s production levels, the Labour government set in place an ambitious policy, called the Ryder Plan, which consisted of modernizing the product range and the production facilities of the company through substantial injections of public money, but without engaging in major restructuring. By the time Margaret Thatcher was elected into government in 1979, it was clear that the Ryder Plan had largely underestimated the gravity of the situation. Production levels had continued to worsen and had dropped 45% below their 1972 level. Domestic market share had crumbled to 20% while imports had climbed to 56% from 14% at the beginning of the decade. Furthermore, despite a capital injection from the state of about £900 million, the accounts of the nationalized company displayed an appalling cumulated loss of £332 million.

The causes of these “disasters” have been largely debated in the literature. Scholars have blamed the poor state of industrial relations and the irresponsible attitude of trade unions, the lack of managerial competences, and the lack of state support in the form of pertinent and coherent industrial, incomes and trade policies<sup>5</sup>. It should be noted however that while BL had certainly suffered more than most of the other “national champions” in the world automobile industry, its problems were far from unique. With a few Japanese exceptions, all the other major carmakers had also suffered massive losses during this period marked

by the double oil shocks and the economic crisis, and many had to be rescued by their governments and/or were purchased by competitors (Freyssenet et al. 1998).

By contrast, only BL amongst all these “national champions” in crisis did not manage to recover market share and restore profitability during the 1980s. By the time the company was finally privatized in 1988 to British Aerospace for £150 million, an additional two billion pounds of public money had been poured in its accounts (bringing the total since 1975 to over £3 billion) without generating any profit and without preventing the further erosion of its domestic market share to an historical low of 15%.

As with the 1970’s “disasters”, this prolonged decline has also attracted several explanations in the literature, in particular by business and economic historians, but remains even more difficult to elucidate. As stressed by Tolliday, “with a modern range of excellent products and a more focused strategy, BL/Austin-Rover has done worse in terms of market share than it did with poor models and confused management in the late 1970s” (Tolliday 1988, 67). The same could have been said for almost all the other dimensions of the company. With better industrial relations, better management, better products, improved economic conditions and continuous government support, not only BL did not recover, but kept losing market share and accumulating losses (Pardi forthcoming).

One possible explanation of the paradoxical decline of BL that has attracted surprisingly little attention is the role of government policy. Indeed, with the election into government of Margaret Thatcher in 1979, British industrial policy had suddenly shifted from an extreme protectionist program that supported “national champions” with little regards for their competitiveness in international markets, to an extreme liberal program that supported free market and state withdrawal from economy with little regards for its consequences on ailing nationalized industries. In particular, the appointment of Keith Joseph, the ideological father of Thatcherism, as Secretary of the State for Industry augured badly for the immediate fortunes of the weakened BL. His removal from office only one year later, in 1981, at the same time when the new corporate plan of BL was under negotiation, has been therefore interpreted as a U-turn in industrial policy (Wilks 1988). Against the repeated advice of Joseph to close down the company, Thatcher eventually decided in December 1981 to invest a further one billion pounds in the ailing nationalized carmaker. According to Wilks (1988), three reasons account-

ed for this shift towards a more pragmatic industrial policy. First, the cost of closing down BL was estimated to be almost the same as keeping the company alive, at least in the short term. Second, under the drastic tenure of Sir Michael Ewardes, the unions at BL had come to accept a massive restructuring program that entailed the closure of thirteen factories and the laying off of 25 000 workers, and these were exactly the kind of measures that the government expected in exchange for its support. Finally, the British motor industry was still the main exporter and the main industrial employer of the country, and it was argued that Thatcher simply could not afford the political price of closing down the last domestically owned carmaker, which still represented 43% of the total British production.

Yet, one would have expected that once the government had made up its mind about supporting BL, and had entrusted substantial amounts of public money and political capital in the operation, it would have also taken the kind of measures that BL required to recover market share and profitability. But what the Thatcher government did was exactly the opposite. First, it subsidised the entry of new domestic competitors in the form of the Japanese carmakers, starting with Nissan in 1984, followed by Toyota and Honda in 1989. Second, it deregulated the market for car parts and new cars with the declared aim of bringing down prices and increasing competition in a market where BL was clearly the weakest player (Monopolies and Mergers Commission 1982; Monopolies and Mergers Commission 1992; Monopolies and Mergers Commission 2000). Both these political projects started in 1981 at the same time when the new corporate plan of BL was approved.

As we have argued in Pardi (forthcoming), such a schizophrenic policy did not make a lot of sense: if the government wanted to replace BL with more competitive Japanese carmakers, then it should have not invested several hundred million pounds per year to rescue the ailing “national champion”; and if it wanted to restore the fortunes of BL as the last owned domestic carmaker, then it should have not increased competition when the company mostly needed protection to recover.

Wilks has argued, however, that such misconceptions in the field of industrial policy were far from exceptional in Britain, and could be explained by the “insularity” of its political elites and their tendency to implement “doctrinal policies” (Wilks 1988). Not only these elites were “sealed from one another to remarkable degree” (Gamble and Walkland 1984, 178), but they were also very distant from

the industrial interests they were supposed to defend, which is why they would tend to implement policies that neglected these very interests but were coherent with their own doctrinal ideas about efficiency. In the case of Thatcher, these ideas were consistent with a dramatic shift from industrial policy, based on state interventionism in the economy, to enterprise policy, based on withdrawal of the state and *laissez-faire* principles. The “schizophrenic” attitude of the government towards BL could be interpreted therefore as the on-going result of this shift (Wilks 1988, 301–305). In other terms, Thatcher had to accept, temporarily and unwillingly, the need to keep BL alive as a sort of institutional heritage from the previous industrial policy, but her government could not accept the need to protect the company, because this was at odds with its own doctrinal ideas about efficiency. From this perspective, the rationale of this contradictory policy was that either BL was able to stand on its own legs in a more competitive environment or the government would withdraw its support anyway.

Such an explanation would be plausible if only because Thatcher and her ministries have constantly presented their policy towards BL exactly in these terms (Thatcher 1993). It would be also coherent with the macro-institutional hypothesis developed by Frank Dobbin that cultural industrial policy paradigms – such as Thatcher’s “enterprise policy” – “structure[d] the very way in which policy-makers see the world and their role within it” (Hall 1992, cited by Dobbin 1994, p.4). But it would require all the same a very strong hypothesis about the blindness of the Thatcher government in regard to the consequences of these policies for BL, and for the two billion pounds of public money invested in the company. Furthermore, the reasons why Thatcher preferred to disavow her political mentor, Keith Joseph, rather than closing down a company that represented everything she despised would remain, from this macro-cultural perspective, difficult to explain.

By contrast, Neil Fligstein’s meso-institutional hypothesis about the power of dominant firms in key national industries would better account for the support obtained by BL despite the ideological hostility of the Thatcher government, but would have much more difficulties in explaining the implementation of market institutions that were clearly detrimental to BL’s interests. Such a paradox would require at least the presence of active challengers who could have benefited from the new institutions and/or from the decline of BL. As far as the outcomes of this institutional change were concerned, the only challengers who could seem to have benefited from them were the Japanese

carmakers. But their record in Europe and in the UK has been rather poor: despite important investments, their market share stagnated during the 1990s and 2000s while the profitability of their European subsidiaries has been at best non-existent for Toyota, or clearly terrible for Nissan and Honda (Pardi forthcoming).

In short, neither the hypothesis of the socially constructed power of dominant firms, nor the hypothesis of the socially constructed power of economic principles could explain in *deductive terms* the odd behaviour of Margaret Thatcher’s government towards BL. By contrast, we will see in the next section how this apparently “schizophrenic” policy can be precisely decoded once the aims and dynamics of the underlying policymaking process reveal themselves. This in turn will allow us to better test the relevance of Dobbin’s and Fligstein’s macro-institutional hypotheses.

### 3 The politics of markets or the hidden role of the component makers

To look into the black box of state-firm relationships often implies looking into the greyish boxes of archives. In this case, the boxes come from the archives of the Department of Industry (DoI) and of the Department of Trade (DoT) and concern the negotiations of the 1981 and 1983 corporate plans of BL and of the future investment of Nissan. Since we present these sources in detail elsewhere (Pardi forthcoming), we will limit ourselves to summarizing the main findings for the purpose of our discussion here.

Let’s start from why the Thatcher government wanted to attract Nissan in Britain despite its strong financial commitment in BL. The archives reveal two fundamental reasons. The first one was that the DoI was afraid to lose the investment to another Member State of the EU. At the time, Japanese imports in the UK were frozen at 11% of the market by a quota established in 1975. But if Nissan, which was the main Japanese importer in Britain, could start production elsewhere in the EU, then they could ignore the quota and increase their market share in the UK through “European” imports. Since the UK appeared to be the worst equipped amongst the EU member states to resist against such imports, due in particular to the commercial weakness of BL, it could be argued that it was in its national interest “to pick up the project and gain domestically rather than suck in the output from another member state”<sup>6</sup>. The argument, however, was contested inside the DoI. As one of the chief economists of the Motor Vehicle Division emphasized: “it is a far too easy temptation to

assume that if the investment did not take place in the UK it would take place elsewhere in Europe with the UK thus not being saved any possible disadvantages". By contrast, it was quite clear that "increased competition from Nissan on this scale will make unviable a BL which could otherwise have been viable"<sup>7</sup>.

The second much more determinant reason which eventually shifted the balance inside the DoI in favour of the Nissan investment and against the interests of BL, was the remarkably strong influence that the component industry exerted on the Thatcher government. For historical reasons, due to the high degree of vertical outsourcing of the British car industry, the main suppliers of BL were large companies like GKN, Associated Engineering, and Lucas. Unlike BL, these companies had sailed through the 1970s economic storm very successfully: they had taken advantage of the UK entry in the EU to grow internationally and displayed high and stable profits through all the period. For instance, Lucas, whose sales concentrated about one fifth of the total turnover of the British automobile supplier industry in 1981, had achieved between 1973 and 1980 a cumulative operating profit of £424 million, with an average operating profit rate of 7,5% for the vehicle equipment division which represented 80% of the total turnover of the company (Pardi forthcoming).

The main source of the profits of the British component makers was not the sale of parts to carmakers, but the after-sale market to consumers, which represented one third of their activity but concentrated slightly more than the total of their net profits (Pardi forthcoming). The British component makers controlled 75% of the after sale market for non-captive parts of British-made cars, which explained their exceptional profitability. But they only controlled 10% to 20% of the sale of car parts for imported cars, and since the share of imported cars had grown from 14% in 1970 to 56% in 1980, this meant that the main source of profit for the British component makers was about to run out. The problem was made worse by the strategy of Ford and GM which had started to shift a growing share of their production of cars and parts from their British subsidiaries to their German and Spanish subsidiaries. As for BL, if it still represented in 1980 43% of the total British production and the main source of profit for the British component makers, its market share had tumbled from 40% in 1970 to 20% in 1980.

Confronted with such critical developments, the Motor Vehicle Component Industry Liaison Group (CILG), which

represented the interests of the main British suppliers within the DoI, made it clear to the Thatcher government that it should not close down BL as Keith Joseph wished, provided that BL kept the totality of its purchasing in Britain; that a new regulation policy was needed to grant British component makers greater access to the after-sale market for imported cars; and that Japanese investment to substitute for the declining production of BL was welcome, provided that it came with a very high level of local integration (90 per cent) and contractual clauses that would force the new entrants to buy only (or mainly) British parts. As the following developments show, this was almost down to the letter the political agenda implemented by the Thatcher governments during the 1980s.

When John Nott, the Secretary of State for Trade, was informed in August 1980 of the possibility of a Nissan and/or of a Toyota investment in Britain, he immediately suggested to the Prime Minister that "while some account must be taken of the effects on BL of increased Japanese involvement in the United Kingdom industry" he hoped that "every encouragement can be given both to Nissan and Toyota to invest in this country". He added that such investment was "likely to provide a welcome stimulus to component manufacture" which was in his view, "likely to be far more important to our economy in long-term than the assembly of cars". He suggested however to "negotiate from the outset an agreement with the Japanese that government grants etc. could only be available on the basis that an agreed proportion of components were sourced from British industry". He also mentioned "the problem to which the Price Commission drew attention in their report on car parts" which was that "Motor manufacturers impose conditions on their franchised dealers requiring the exclusive use of their own components for replacements, and now that the majority of cars are imported these conditions exclude our components industry from a growing part of the replacement market". In order to solve this problem he indicated how he had referred the practice to the Monopolies and Mergers Commission for a "short enquiry", which should soon give him the power "to prohibit or regulate the practice"<sup>8</sup>.

The speaking notes for the first meeting between the representatives of the DoI and Nissan were also very clear about the importance of the component makers' interests. They stated that: "High local content would be a big boost to the industry and might offset possible impact on BL, and would be essential to favourable HMG response". In order "to satisfy component industry" the local content would

have to be “at least of 80% or more, which virtually include the production of all components other than engine and gearbox”. As a way to introduce the topic to the Nissan’s representatives, the speaking notes suggested the following line:

“HMG’s substantial support to BL is the main evidence of Government’s determination to retain a viable motor manufacturing industry. As you will no doubt have learnt direct from Sir Barrie Heath (chairman of GKN), we do however have a much stronger components industry”<sup>9</sup>.

It should be noted that local content level at 80% was far in excess of what the EU required, which was 55%, and it also implied very large volumes of production – about 250 000 cars per year – in order to break even, because the economies of scale in component production were much more important than in car assembly. It became soon clear in the DoI that “volumes of this kind (would) undermine BL’s position”<sup>10</sup> but the government stuck to its position and clearly arbitrated in favour of the component makers’ interests.

The archives provide other examples of situations in which the government arbitrated in favour of the component makers and against BL. Perhaps the most striking one is when Sir Michael Edwardes, the director of BL, announced in the first draft of the 1983 corporate plan that BL was going to shift 35% of its purchasing abroad, towards Spain, Japan, Taiwan and Korea. Edwardes had calculated with the support of Honda, with whom BL had established an alliance in 1979, that the operation could save to the company up to £80 million for 1984 alone and several hundreds millions by the end of the decade. The DoI did not contest the data provided by the company, but the government vetoed the whole project. In this occasion, Norman Lamont, Minister of State for the industry, clearly stated “that to reduce the UK content of BL cars to 55% would make a mockery of the policy of supporting Leyland”<sup>11</sup>. The government also applied to the joint models developed by BL and Honda the same rule of 80% of local content, and when BL top management asked in 1983 to amend the policy to allow the production of Honda models in BL’s factories in exchange for BL’s exports to Japan, the government again refused, afraid that Nissan might take advantage of any break of the rule to renegotiate its engagements with the British component makers (Pardi forthcoming).

As to why the British component makers exerted such a strong influence on the Thatcher government, the first and most evident reason was purely economic. During the 1970s, the destabilizing consequences of the UK entry in the EU and of the first oil shock had made the production of cars in Britain an unprofitable business, but this was not the case of the after-sale market and component makers controlled the after-sale market for British made cars. Furthermore, the British component makers were amongst the largest in Europe and they profited from the European integration by increasing their sales and production abroad. As a result, by the late 1970s they had become, as a group, the dominant firms in the domestic market while the once ultra-dominant BL had been downgraded to the role of challenger placed under the protection of the state.

A second reason could be labelled as cultural. British component makers were private, family-owned, and profitable firms. Thus, they perfectly embodied the model of the autonomous entrepreneurial firm that the Thatcher government wanted to revive against the state-led monopolistic model of BL (Dobbin 1993).

Finally the British component makers were also concentrated in a strategic political region, the West Midlands, which had been decisive in first installing and then removing the Conservatives from power in 1970 and 1974 general elections (Taylor 1979). Their economy depended on the auto suppliers, and their interests were represented in the parliament by the very influential all-party Motor Industry Group.

## 4 Conclusion

In the case of the decline of the British motor industry under Margaret Thatcher, unpacking the state-firm relationship radically changes our comprehension of the underlying economic and institutional dynamics. Our analysis shows that political institutions did play a key role in this story, but for reasons that were very different from those deduced by the few works in political science that have made this hypothesis. In these works, the government action was presented at best as a muddled ideological policy, blinded to its detrimental effects on BL by culturally constructed ideas about efficiency. Our study shows that it was in fact a quite coherent attempt to protect the interests of the dominant domestic firms in the automobile sector, except that these were not anymore the carmakers, but their suppliers. Institutional change was required here to preserve their profitability and industrial viability that



were threatened both by the collapsing market share of BL and the growing influx of imports.

Interpreted as a shift between “industrial policy” and “enterprise policy”, the state action towards the automobile sector under Margaret Thatcher was in fact industrial policy disguised in neo-liberal clothes. On the one hand, the attraction of Japanese foreign direct investment in the sector was constrained by very high local content clauses that ensured that British component makers would capture between 50% and 60% of the value produced by Nissan, Honda and Toyota in the UK. On the other hand, the deregulation of the after-sale market was not aimed at bringing down the prices for the consumers, but at increasing the control of the British component makers over this profitable market. This also means that these measures did not really increase competition for BL, and that the prolonged decline of the company was not directly due to the state-sponsored Japanese invasion nor to the effects of market deregulation. The problem of BL was that the priority of the Thatcher government was not to restore its long-term competitiveness, but to delay its death until the opening up new business opportunities for the component industry.

It is also clear from our analysis that the underlying aims and effects of policymaking could have not been deduced from macro-institutional hypotheses. Although Frank Dobbin’s macro-cultural perspective seemed to provide a relatively better account of the “irrational” policymaking of Margaret Thatcher than Neil Fligstein’s meso-institutional perspective, we see now how the fact of taking institutions and institutional change at their face value does not allow us to grasp how actors manipulate the meaning and the very substance of political institutions. Indeed, whereas Thatcher gave the impression of acting in the name of rationalized ideas of efficiency against the interests of dominant firms, she was acting in the name of these very interests against her own ideas of economic efficiency. By contrast, Neil Fligstein’s hypothesis about the power of dominant firms, which seemed particularly at odds with the politically-driven decline of the “national champion” BL, is strengthened by our study, but with two important conditions. First, if we want to understand the effects of policymaking on market field dynamics, then the social processes by which firms become, remain or cease to be “dominant” in political arenas must be endogenized in the analysis rather than deduced by the relative distribution of economic capital or by the perceived outcomes of institutional change in the market field. Second, if want to understand how the dominants’ “conceptions of control”

and the state’s “ideas about efficiency” constantly interact in policymaking, then the “argumentative” strategies (Forster 1993) by which private companies’ concerns are translated, more or less successfully, into the “interests” of the state must also be taken into account.

Finally, concerning the dynamics of institutional change, the present study suggests that piecemeal endogenous cumulative change and the effects of exogenous shocks on markets’ field structure are very much intertwined. Indeed, the institutional changes introduced by the Thatcher government in the British motor industry might have appeared initially as the straightforward consequences of exogenous shocks and of exogenous state action, but we have shown that they are much better understood as the results of the endogenous transformation and reproduction of the field under the successful political action of the component makers.

To conclude, the fact that the British component industry has not become in the UK “far more important than the assembly of cars” as the Secretary of State for trade, John Nott, had decidedly assumed back in 1980, reminds us of a fundamental aspect of public action in the economy, which is that despite its structuring or destructuring role, it is frequently ineffective in achieving its precise aims.

**Tommaso Pardi** is a sociologist, researcher at the Centre National de la Recherche Scientifique, member of the IDHE at the Ecole Normale Supérieure de Cachan, member of the thematic network of economic sociology of the Association Française de Sociologie and associated director of the Gerpisa, an international network of research in social sciences on the automotive industry. His researches focus on the social construction of efficiency and markets. Latest publications include *L’eccezionale normale del toyotismo (Quaderni di Rassegna Sindacale, 2012)* and *Travailler chez Toyota: de l’emploi à vie à la lutte pour la survie (Revue de l’IRES, 2009)*.

## Endnotes

<sup>1</sup>This is particularly clear in the analysis of the “subprime” crisis in the US mortgages market. While Fligstein and McAdam (2012) show how the federal government and public policy played a structural role in shaping the mortgage market, they explain the government’s failure in regulating the market and preventing the growth and the burst of the real estate bubble by making two deductive statements about the underlying process of policymaking. First, they assume that the politicians in Congress and in the

federal governments "all viewed their role in creating the possibility of more homeowners as an important goal of social policy" (p. 151), and that this political engagement made them *deaf* to the possible detrimental outcomes of a speculative growth of the mortgage market. Second, they assume that the faith of public regulators in self-regulating markets made them *blind* to the possibility of irrational behavior by market's actors, which would explain why incumbent banks in the mortgage market obtained what they wanted from the government in terms of market deregulation (p. 158). As we will argue later in this paper, these kinds of deductive arguments provide at best a poor explanation of policymaking and require a great deal of faith in the supposed deafness and blindness of politicians and public regulators.

2For a critical analysis of the impact of public policies on the British motor sector in the 1960s and 1970s see Dunnet 1980; Wilks 1988.

3Before 1975, the company was called British Leyland Motor Corporation Ltd., in 1975 it was renamed British Leyland, and then simply BL in 1978. BL lasted until 1986, when the company was renamed Rover Group. For simplicity reasons we will refer to it here as BL.

4See (Pardi forthcoming) for a detailed discussion of the literature on the decline of the British motor industry.

5For a detailed review of this literature see (Whisler 1999; Foreman-Peck, Bowden, and McKinlay 1995; Pardi forthcoming).

6R. Mountfield, Commenting on Mr. Owen minute and possible reactions from EU commission and EU partners, July 26, 1980, The National Archives: FV 22/133.

7Alan Whiting to J. Cammel and J. Bowden, Comments on the note "possible Japanese investment in the UK motor industry", 10 September 1980, The National Archives: FV 22/133.

8John Nott to Prime Minister, Possible Japanese investment in the motor industry, 13 August 1980, The National Archives: FV 22/133.

9J. Mills to Lord Trenchard, Nissan, 30 July 1980, The National Archives: FV 22/133.

10N.C. Owen to R. Mountfield, Nissan: Draft brief for Mr. Okuma's visit, 25 July 25, 1980, The National Archives: FV 22/133.

11Norman Lamont to S.o.S., October 21, 1982, The National Archives: FV 22/95.

## References

- Altshuler, Alan/Daniel Roos (eds), 1984: *The Future of the Automobile: The Report of MIT's International Automobile Program*. Cambridge, Massachusetts: MIT Press.
- Boden, Deirdre, 1994: *The Business of Talk: Organizations in Action*. Cambridge: Polity Press.
- Dobbin, Frank, 1993: The Social Construction of the Great Depression: Industrial Policy During the 1930s in the United States, Britain, and France. In: *Theory and Society* 22(1): 1–56.
- Dobbin, Frank, 1994a: *Forging Industrial Policy: The United States, Britain, and France in the Railway Age*. Cambridge: Cambridge University Press.
- Dobbin, Frank, 1994b: Cultural Models of Organization: The Social Construction of Rational Organizing Principles. In: *The Sociology of Culture*: 117–42.
- Dobbin, Frank, 2004: *The Sociology of the Economy*. New York: Russell Sage Foundation.
- Dobbin, Frank, 2009: *Inventing Equal Opportunity*. Princeton: Princeton University Press.
- Dunnet, P.J.S., 1980: *The Decline of the British Motor Industry: The Effects of Government Policy, 1945-79*. Oxford: Oxford University Press.
- Fligstein, Neil, 1990: *The Transformation of Corporate Control*. Cambridge, Mass.: Harvard University Press.
- Fligstein, Neil, 1996: Markets as Politics: a Political-cultural Approach to Market Institutions. In: *American Sociological Review* 61: 656–673.
- Fligstein, Neil, 2001: *The Architecture of Markets: An Economic Sociology of Twenty-first-century Capitalist Societies*. Princeton: Princeton University Press.
- Fligstein, Neil/Luke Dauter, 2007: The Sociology of Markets. In: *Annual Review of Sociology* 33(1): 105–128.
- Fligstein, Neil/Doug McAdam, 2012: *A Theory of Fields*. New York: Oxford University Press.
- Foreman-Peck, James/Sue Bowden/Alan McKinlay, 1995: *The British Motor Industry*. Manchester: Manchester University Press.
- Forester, John, 1993: *The Argumentative Turn in Policy Analysis and Planning*. Durham: Duke University Press.
- Freyssenet, Michel/Andrew Mair/Koichi Shimizu/Giuseppe Volpato (eds), 1998: *One Best Way? Trajectories and Industrial Models of the World's Automobile Producers*. Oxford: Oxford University Press.
- Gamble, Andrew/S. Walkland, 1984: *The British Party System and Economic Policy 1945-83. Studies in Adversary Politics*. Oxford: Clarendon Press.
- Goldstone, Jack A./Bert Useem, 2012: Putting Values and Institutions Back into the Theory of Strategic Action Fields In: *Sociological Theory* 30(1) (March 1): 37–47.
- Jackson, Gregory, 2005: Contested Boundaries: Ambiguity and Creativity in the Evolution of German Codetermination. In: Wolfgang Streeck/Kathleen Thelen (eds), *Beyond Continuity. Introducing Change in Advanced Political Economies*. Oxford: Oxford University Press.
- Jullien, Bernard/Andy Smith, 2011: Conceptualizing the Role of Politics in the Economy: Industries and Their Institutionalizations. In: *Review of International Political Economy* 18(3): 358–383.

- Lawrence, Thomas B./Roy Suddaby/Bernard Leca**, 2009: *Institutional Work: Actors and Agency in Institutional Studies of Organizations*. Cambridge: Cambridge University Press.
- Mahoney, James/Kathleen Thelen**, 2009: *Explaining Institutional Change: Ambiguity, Agency, and Power*. 1st ed. Cambridge: Cambridge University Press.
- Monopolies and Mergers Commission**, 1982: *Car Parts. A Report on the Matter of Existence or the Possible Existence of a Complex Monopoly Situation in Relation to the Wholesale Supply of Motor Car Parts in the United Kingdom*. The House of Commons.
- Monopolies and Mergers Commission**, 1992: *New Motor Cars. A Report on the Supply of New Motor Cars in the United Kingdom*. The House of Commons.
- Monopolies and Mergers Commission**, 2000: *New Cars. A Report on the Supply of New Motor Cars in the United Kingdom*. The House of Commons.
- Pardi, Tommaso**, forthcoming: Industrial Policy and the British Automotive Industry Under Margaret Thatcher. In: *Business History*.
- Streeck, Wolfgang/Kathleen Thelen**, 2005: *Beyond Continuity: Explorations in the Dynamics of Advanced Political Economies*. Oxford: Oxford University Press.
- Taylor, Peter J.**, 1979: The Changing Geography of Representation in Britain. In: *Area* 11(4): 289–294.
- Thatcher, Margaret**, 1993: *The Downing Street Years*. New York: HarperCollins.
- Tolbert, Pamela S./Lynne G. Zucker**, 1999: The Institutionalization of Institutional Theory. In: *Studying Organization. Theory and Method*. London, Thousand Oaks, New Delhi: 169–184.
- Tolliday, Steven**, 1988: Competition and the Workplace in the British Automobile Industry. 1945–1988. In: *Business and Economic History* 17: 63–77.
- Whisler, Timothy R.**, 1999: *The British Motor Industry, 1945–1994. A Case Study in Industrial Decline*. Oxford: Oxford University Press.
- Wilks, Stephen**, 1988: *Industrial Policy and the Motor Industry*. Manchester: Manchester University Press.
- Zucker, Lynne G.**, 1987: Institutional Theories of Organization. In: *Annual Review of Sociology* 13: 443–464.