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BOOK REVIEWS

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Michael Dennis. 2009. *The New Economy and the Modern South.* University Press of Florida. ISBN: 978-0-8130-3291-7 346 pp. $75 paperback.

Reviewed by *Bernard L. Weinstein*, Southern Methodist University

Michael Dennis is an associate professor of history at Acadia University in Nova Scotia, and he is clearly unfamiliar with the methodologies used by economists and regional scientists who study regional economic development. His book *The New Economy and the Modern South* is more a political tome than a careful assessment of the economic, demographic, and technological forces that have transformed the economy of the southern United States—and the rest of the country for that matter—over the past 50 years. In short, he argues that globalization and technological change have resulted in "the supremacy of the marketplace in social affairs" and that market forces, in turn, have destroyed the middle class—i.e. unions—as well as the South's traditional sense of community. Professor Dennis may or may not be a Marxist, but he's clearly unfamiliar with Schumpeterian dynamics as well as the academic literature on regional economic change.

Dennis defines his book as "a critical perspective on the ideology and practice of business domination in southern life." This is a puzzling statement since "business" has always dominated southern politics and was the proximate cause of the Civil War. The so-called "New Economy" of the 1980s and 1990s becomes a key villain in Dennis's narrative because of the resulting worker displacement and demise of union membership. He neglects to mention, however, that during the 1980s and 1990s the South led the nation in net job creation.

Professor Dennis focuses on Virginia as a case study on the evils of market forces. His book is replete with anecdotes about families and businesses that have been adversely affected by economic change. Too bad he doesn't also write about all the new businesses and jobs that were created in Virginia during the 1980s and 1990s. Between 1989 and 2008, Virginia's nonfarm employment increased by 900,000, or almost a third. Other than Texas, no other southern state grew as fast. What's more, by embracing the employment opportunities offered by the New Economy, Virginia has become the only southern state with per capita income above the U.S. average. These developments go unmentioned by Professor Dennis.

The North American Free Trade Agreement (NAFTA) is another villain in Dennis's firmament. He claims that competition from Mexico, as well as other low-labor-cost countries,

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has had a deleterious impact on Virginia and other southern states by accelerating job losses in traditional industries. But America's comparative advantages in textiles, apparel, furniture, food processing, and other labor-intensive manufacturing industries had been eroding long before the concept of a New Economy came into vogue.

Chapter 6 in the book, titled "Virginia is for Business: Selling the Commonwealth in the Competition Era," is the least ideological and, perhaps, the most relevant chapter for regional scientists and practitioners of regional economic development. Dennis documents how Virginia and other southern states have literally "given away the store" through tax breaks, subsidized loans, and other incentives designed to attract new businesses to the region. He points out that many of these incentives have gone to service-oriented companies like Travelocity that pay relatively low wages. As a result of these incentives, state and local tax revenues are considerably less than they otherwise might be. Consequently, spending for public education and other services tends to be lower in the South than in other parts of the U.S.

In Chapter 7, Professor Dennis addresses the rise of political conservatism among both Democrats and Republicans in Virginia during the 1990s. Virginia has always been a conservative state, and presumably what Dennis is talking about here is the influence of the Christian right and other ultra-conservative groups on the state's political climate. This was no doubt the case. But Professor Dennis once again embraces hyperbole when he argues that in Virginia and other southern states "Railing against taxes, attacking labor unions, and reducing social services were inseparable from the effort to re-energize the South for the global economy."

In the final two chapters of his book, Dennis argues that grassroots organizations like the Virginia Organizing Project are critical to bringing about democratic reform and racial justice in the southern states. He fills these chapters with stories of protests against the IMF, the WTO, genetically modified foods, and the fate of sea turtles. It's not clear how these examples of grassroots protesting will lead to democratic reforms in Virginia.

What we really have in *The New Economy and the Modern South* is a compendium of eight critical essays. Each is well-written and, if you believe market forces are the source of all evil, well-argued. But Professor Dennis's ideological baggage prevents him from writing a balance monograph on how the New Economy has helped to transform the South.

Francesca Masciarelli. 2011. *The Strategic Value of Social Capital: How Firms Capitalize on Social Assets*. Northampton, MA USA: Edward Elgar. ISBN 978-1-84980-296-3. 171 pp. $110 (hardcover).

Reviewed by *Clifford A. Lipscomb*, Greenfield Advisors

The basic premise of the book is that "social structure endows individuals (and firms) with goodwill and that this goodwill is appropriable and convertible into other forms of capital." Put another way, "social ties can be leveraged into business /work settings, giving rise to important benefits such as access to information and resources. The key contribution of this book is to further our understanding of how these knowledge-based and resource advantages arising from social capital serve as a source of competitiveness for firms" (p. vi).

Another contribution of the book is that Masciarelli views social capital not only as a collective good embedded in communities, but also as a resource inherent in an actor's links to other actors (firms or individuals) in social networks. Her use of the multiple levels of social capital influences the empirics as well – the two levels of social capital interact jointly to influence firm outcomes. This allows us to understand better the relationship between social capital and firm competitiveness.

As a preview of the results, social capital is demonstrated to play a role in innovation, banking relationships, internationalization of knowledge-based functions, and the succession process in family firms. She uses data from two large-scale databases, two primary surveys of Italian firms, and case studies to show that "firms located in geographical environments characterized by high levels of social capital are more competitive and innovative, since social capital is conducive to knowledge sharing and promotes trust-based relationships among the actors" (page 2).

The book is organized into seven chapters. Chapter 1 provides an overview of the rest of the book. The key thesis is that "social capital is a key mechanism for firms' gaining access to external sources of knowledge and resources, since it reduces the search and transition costs in contractual and non-contractual interactions among economic actors and facilitates joint learning opportunities" (p. 1). Masciarelli organizes chapters 2-6 around two main approaches to social capital: structural (chapters 2-3) and individual (chapters 4-6). Chapter 7 provides the conclusions of the book, including theoretical implications, practitioner implications, and avenues for future research.

The structural approach to social capital views it as a collective good embedded in the firm's environment. This approach highlights the importance of community participation and local social interaction as creating the foundations for economic development. By contrast, the individual approach to social capital is the investment of one individual in a network of social relationships, which allows access to a set of diverse and rich resources. This approach views social capital as a private good that can benefit individuals. Another contribution of this book is that these two research streams, which have essentially progressed in parallel, are brought together to develop a comprehensive framework to investigate how firms create value from social capital.

From an empirical perspective, measuring social capital is challenging due to the lack of theoretically-driven data collection efforts and data availability at the sub-regional level. Interestingly, social capital is operationalized "by looking at an entrepreneur's access to a list of positions, which, in turn, give access to a corresponding knowledge domain" (p.6). This provides a measure of the individual's capability to handle a set of relationships that facilitate the exchange of information and knowledge. Personal interviews with Italian firms in various sectors (mechanical, chemical, textile, agroindustrial, wood, IT, and automotive) were used to glean information an entrepreneur's level of social capital.

Chapter 2 investigates the role of geographically bound social capital in determining the relationship between regional creativity and firm innovation. High levels of regional creativity benefit firms since they enable firms to take advantage of the presence of skilled and talented individuals. The author suggests that firm's location in a creative region is a necessary but not sufficient condition for it to be innovative. Geographically bound social capital is an "important external contingency that determines the possibility that firms will benefit from high levels of regional creativity" (p. 8). Using a sample of almost 5,000 Italian manufacturing firms, the author finds that "being located in a region with a high level of creativity increases the probability that firms will be innovative" (p. 27). Then, after splitting the sample into two subsamples (high and low social capital settings), the author uses probit and Tobit regression models to find that, for firms in high social capital settings, regional creativity has a positive and significant impact on innovation. Then, for firms in low social capital settings, regional creativity does not have a significant impact on firm innovation.

As a principal in a small business, I am particularly intrigued by the results found in Chapter 3, which investigates how geographically bound social capital influences firms' relationships with banks by considering two aspects: 1) number of credit relationships; 2) firm's privileged debt maturity. Theoretically, if firms are involved with more than one bank, this could be interpreted as a form of firm shyness, suggesting that firms may prefer several financing sources instead of one to prevent divulgence of too much private information. Simultaneously, many banks prefer multiple banking because it allows them to spread the risks among recipients. The empirical results, based on a logit regression model, suggest that firms located in high social capital settings have a higher probability of forming single banking relationships. It seems that geographically bound social capital boosts the perceived trust among the economic agents and facilitates credit relationships.

For privileged debt maturity, firms tend to rely on short-term debt to finance their investment. From the bank's perspective, it seems that most banks prefer shorter debt maturity to enable some sort of control over firm performance. In addition, asymmetric information problems induce leading banks to prefer short-term debt agreements to reduce the risk of default. Using a unique dataset and the OLS estimator, the empirical results show that higher levels of social capital are associated with longer debt maturity.

Chapters 4, 5, and 6 focus on the values of individual social capital. In chapter 4, the main thesis is that geographically bound social capital amplifies entrepreneurs' network for innovation. Geographically bound social capital is a collective asset; entrepreneurs' social capital is an individual asset. The basic argument is that these two approaches to social capital "can be identified, and that they both can be used to explain firm's innovation" (p. 59). The empirical analysis used a firm's degree of innovation, which is an ordered variable coded from 0 to 2. This requires the use of an ordinal regression model as the assumptions of the OLS estimator would be violated. The results show that entrepreneurs' social capital [operationalized using a position generator technique proposed by Lin and Dumin (1986)] positively affects firm innovation and that geographically bound social capital is an "external contingency that positively moderates the relationship between an entrepreneur's social capital and innovation" (p. 10). Controlling for firm characteristics and local variables, the results suggest that being located in an area characterized by a high degree of geographically bound social capital "increases the effectiveness of the entrepreneur's social capital on firm's innovation, helping the entrepreneur to identify new opportunities and mobilize valuable resources" (p. 75-76).

Chapter 5 investigates how international social capital (the relationship that firms establish with foreign actors that have a wide variety of knowledge domains) influences the relationship between the offshoring of intangibles and firm performance. The offshoring of intangibles is a "global production strategy based on the decision to outsource to foreign countries high knowledge intensive activities, such as R&D, software development, product design, and professional services" (p. 10). Using another unique dataset that merges public data with survey data, the Generalized Linear Model (GLM) results suggest that "firms that choose to offshore intangible activities appear to show higher performance" (p. 97). Also, the empirical results show that international social capital positively moderates the relationship between offshoring intangible activities and firm performance in the IT an automotive sectors. This confirms the value of social capital for firms' strategic decisions; "…a high level of social capital enables the identification of international partners with a willingness to cooperate and a propensity to share highly specialized knowledge" (p. 98).

Chapter 6 investigates the effects of social and human capital on the succession process in family businesses. As opposed to other firm types where knowledge is linked strictly to the business, in family firms, knowledge is often individual and accessible only to the family members. So, the success of family firms is inextricably linked to the knowledge possessed by family owners. Using a qualitative (case study) approach, the author shows that the successor's level of social and human capital "contributes to defining the succession model adopted by the firm" (p. 11). At the end of the chapter (p. 122-127), the Appendix includes the entire set of interview questions used to develop the qualitative analysis.

Overall, I appreciate the author's use of publically available data and primary data (collected through survey research and personal interviews) to answer important questions about different levels of social capital (geographically bound and individual social capital). I also appreciate the insight gained through case study research for proposing a framework for analyzing succession in family firms. This book is a must-read for economists, sociologists, and regional scientists who are interested in the relationship between social capital and firm innovation. While Chapter 5 explicitly accounts for possible self-selection bias in the results, it seems that more emphasis should be given to this issue in the other chapters.

Reference

Lin, N. and M. Dumin. (1986) "Access to occupations through social ties." *Social Networks*, 8, 365–386.

Jati Sengupta and Phillip Fanchon. 2009. *Efficiency, Market Dynamics and Industry Growth*. New York: Palgrave Macmillan. ISBN: 978-0-230-58191-3. 164 pp. $110.00.

Reviewed by *Peter V. Schaeffer*, West Virginia University

Industrialization and urbanization emerged some 300 years ago and are reshaping the world. In the mid-19th century, Great Britain became the first nation to be more urban and industrialized than rural and agricultural. The United States passed this milestone around 1920. Globally, however, the processes of urbanization and industrialization have not yet run their course and the world's population became majority urban only in 2009.

The forces of urbanization and industrialization are powerful. Even economies that have already largely passed through them nonetheless feel repercussions of the processes' impacts elsewhere. Domestic and international migrations, the development of global business institutions, and the growing importance of supranational quasi-governmental institutions have to be interpreted against the backdrop of global industrialization and urbanization.

The two processes have dramatically changed the share of the world's GDP produced in "emerging market economies," which doubled from 11.98 percent in 1969 to 23.86 percent in 2011. As a consequence, advanced economies lost market share in the production of standardized goods to lower cost countries and increasingly have to compete through innovation instead of price. Sengupta's and Fanchon's (S&F henceforth) book is a contribution to the growing body of research on innovation. Efficiency and market structure must also be considered because in an economy that is dynamic because of innovation, perfectly competitive markets may not produce the optimal rate of innovation and growth.

Sengupta is professor at the University of California–Santa Barbara and Fanchon at California Polytechnic State University–San Luis Obispo. Both authors are economists and their book is written for readers with a sophisticated understanding of economic theory. However, the book's topics, which are organized into six chapters, have a much wider appeal. Chapter 1 addresses the relationship between technology creation, diffusion, and market structure. It serves as an introduction to the literature and prepares the reader for the remaining chapters. The focus of Chapter 2 is on efficiency models and industry growth and includes consideration of adjustment costs, scale economies, learning by doing, and optimal investment. Chapter 3 applies the theory to the computer and pharmaceutical industries, respectively. Chapter 4 is a largely theoretical discussion of pricing strategies in markets shaped by the dynamics of innovation. It is followed by another theoretical chapter, titled "Dynamic Models of Productivity and Efficiency." Finally, the concluding Chapter 6 combines empirical and theoretical research in a discussion of innovation and efficiency in the telecommunications industry.

Research on the relationship between innovation, knowledge, and growth has tradition. Karl Marx already understood that the capitalist economy is dynamic with capitalists searching for new profit opportunities, continually forcing current industry leaders to at least keep up with innovations or be replaced. Schumpeter famously characterized this process as 'creative destruction' and argued that firms who have market power will be more innovative than firms operating in a perfectly competitive economy. Chapter 1 of S&F provides a technical but readable introduction into this type of thinking and explains why, in a dynamic economy, perfect competition may not represent the best market structure. A particularly valuable insight concerns the relationship between technology creation, diffusion, and industry concentration. S&F use a game theoretic example to illustrate that zero spending on research and development (R&D) can be a Nash-equilibrium. If the two firms in their example engage in the same R&D activities, then, because of duplication of efforts, their combined costs are higher than their combined benefits. This insight suggests that exempting firms from antitrust rules in R&D, but not in production, may improve social welfare. More generally, S&F point out that market game models help explain why and how a firm seeks to, first, influence the current conduct of rivals and, second, alter market structure to affect the future strategies of rivals (p. 28).

In Chapter 2, S&F focus on models of industry growth to discuss the relationship between market structure and efficiency. In the concluding remarks to this chapter, the authors write that "[G]rowth and decline of modern high-tech industries today depend basically on the new technology and innovations of firms comprising the industry. Dynamic efficiency of firms provides the catalytic force of growth of an industry and those firms unable to maintain dynamic efficiency over time cannot survive the competitive fitness game" (p. 56). Dynamic efficiency refers to the balance between achieving static (short-run) cost efficiency and R&D spending to remain competitive in the long-run. The competitive equilibrium solution in overlapping-generations growth models is not dynamically optimal, whereas competitive solutions of neoclassical growth models, such as the model pioneered by Robert Solow, are dynamically optimal.

When analyzing the growth of an industry, such as the computer or pharmaceutical industry in Chapter 3, the objective is to compare actual growth to the estimated optimal trajectory. There are two alternative methods to accomplish this, namely stochastic frontier analysis (SFA) based on maximum likelihood methods and data envelope analysis (DEA) based on input-output models. A theoretical application of the DEA model yields the result that more competitive industries (with many firms) invest less in R&D per sales volume than less competitive industries (with fewer firms). The price of the good in question is positively related to R&D spending relative to sales, while price elasticity, which is higher in more competitive markets, is negatively related.

Schumpeter's process of creative destruction implies that entrepreneurs engage in or purchase R&D to lower their production costs, achieve higher quality, or offer more or better features than their competitors. In every case they must choose a pricing strategy. When product costs or features differ between firms, price-taking behavior is not profit maximizing. Chapter 4 explores pricing strategies under a number of different assumptions and shows that the results are sensitive to the rate of growth in the firm's market relative to the discount rate.

The long-term survival of a firm depends on how successfully it pursues static efficiency in the short-run to earn enough to optimally invest in R&D and be dynamically efficient and remain competitive. Therefore, Chapter 5 is dedicated to dynamic models of productivity and efficiency. Over time the efficiency (production possibility) frontier changes because of R&D. "Most of these factors are important in the long run. The resulting market structure is very often hyper-competitive, where the standard rules of static competitive equilibria fail to apply" (p. 131). In other words, R&D "…has changed the market structure in the direction of hypercompetition. The role of Schumpeterian innovations is most prominent in this framework" (p. 136).

In the final chapter, the authors once again adopt an empirical perspective and study the telecommunications industry, analogous to their focus on the computer and pharmaceutical industries in Chapter 3. A particularly interesting issue relative to telecommunications is the changing regulatory environment in this industry. Privatization and deregulation have attracted new entrants and changed market structures towards more competition. An interesting conclusion of the analysis in this chapter is that the marginal effect of R&D spending is positive for firms not currently on the efficiency frontier, but negative for those who are on the frontier. This result suggests the possibility of leader-follower behaviors in an industry.

The contents of this book are particularly useful for readers wishing to become more familiar with the growing economic literature on growth, knowledge, innovation, invention, and efficiency. Although the topics are of interest to scholars in a range of disciplines, the level of modeling and mathematical sophistication limits the likely readership to those with an advanced background in economics. There are, however, sections mostly composed of text, particularly in Chapters 1 and 6, that deserve to be widely read until a review written for a more general audience than economists becomes available.