Corporate Reputation Roundtable

The Editors asked authors to recall instances, drawn from their research, when problems of reputation had significant consequences. The following short essays highlight moments of reputational crisis, or evolution, for mail order houses, automobile companies, investment banks, high-tech companies, health-care providers, and more.

The Ambiguities of Business Fraud and Entrepreneurial Reputation in Progressive-Era America

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In the late fall of 1894, an up-and-coming Midwestern entrepreneur gained a lesson about the powers of the United States government. For eight years, this former railroad station manager had nurtured a succession of mail-order businesses in Chicago and then Minneapolis, following in the footsteps of other postbellum businessmen and women who hoped to cultivate consumer demand in the American countryside. Through experiments with national print advertising and especially the wholesale distribution of catalogues, he discovered that he had an instinctive knack for convincing potential customers that his wares answered their needs and fantasies. His innovative marketing tactics accompanied a growing number of endorsements from leading banks and public officials across the Midwest. Farm families responded so vigorously to his sales pitches that the merchant's firm frequently struggled to fill the orders. By December 1894, the business of this ambitious thirty-one-year-old had swelled to well over 100 employees. He was well on his way to consolidating an extremely positive reputation with suppliers, creditors, the print media, and rural customers. Then, two weeks before Christmas, the United States Post Office threatened this fast
growing mercantile emporium. On Dec. 11, the Postmaster General issued a fraud order against the firm, based on allegations that it engaged in deceptive lottery-like promotions, promising prizes to the first customers who ordered goods from a particular state.

Anyone familiar with the history of American retailing will have identified the merchant as Richard W. Sears, the creator of the “Dream Books” that came to rest on hundreds of thousands of kitchen tables across the rural United States. The episode of the fraud order against Sears and the subsequent post office scrutiny of his company’s business practices, by contrast, will almost certainly come as something of a surprise, since it has escaped scholarly notice, buried in the dusty files of National Archives Record Group 28.

When a fraud order took effect, the individuals and businesses concerned lost access to the United States mail. If anyone tried to communicate with such a person or organization through the post, clerks in the local post office affixed a stamp of public shame on the letter or package—an accusing finger that pointed to the address accompanied by a bright red “FRAUDULENT”—and then returned the letter or package to the sender. The same action awaited any efforts to send out mail. This administrative sanction arguably represented a far greater commercial peril than civil lawsuits or even criminal fraud proceedings. A fraud order threatened to destroy confidence in a business.¹

Once hit by the fraud order, Sears confronted the prospect of that red stamp “FRAUDULENT” finding its way into thousands of farmhouses and ensuring neighborly conversations, amplified by accusatory news coverage. Like scores of other American entrepreneurs in the late nineteenth and early twentieth centuries whose marketing tactics similarly ran afoul of postal sensibilities, he wasted no time in mobilizing his various business networks to speak on his behalf. In this reputational context, however, all networks most definitely were not created equal. The word of leading bankers and elected politicians counted far more with postal inspectors and the Assistant Attorney General for the Post Office than did testimonials from rural farm families. Sears also rushed to Washington to make a personal appeal to postal attorneys. By pledging to reform his marketing ways, Sears skirted this threat to his quickly growing mail order business.

In the early years of his enterprise, Sears cultivated various reputations, especially through repeat transactions and word of mouth—as a florid pitchman; as a provider of previously inaccessible goods to his

¹ Readers who want the full details about Sears, Roebuck & Co.’s encounter with allegations of mail fraud should look to my forthcoming book, Wrestling with the Flim-Flam Man: A History of Business Fraud in America.
customers at an affordable price; as a middleman who could generate massive orders for his suppliers; as a debtor who always made good on his ever growing needs for working capital. But these reputations did not, before this incident, extend to the United States Post Office. When presented with complaints about Sears, postal officials initially sized him up according to the evidence before them, which triggered comparisons to the practices of other firms pressing at the bounds of legitimate marketing strategies.

This episode reveals how entrepreneurs in modern economies must confront the dilemma of how to gain reputation according to conventional values while also trying to reshape those norms. New economic sectors, like late nineteenth-century American mail order distribution, bring these moments of deeper conflict over the bases of reputation into the foreground. In addition, the incident demonstrates that the reputational challenges facing a business start-up differ from those confronted by an entrenched, leading firm. The newcomer must simultaneously engage in puffery to gain a market footing, while running the risk of disappointing counterparties through over-promising or running afoul of commercial standards of conduct.

The travails of Sears & Roebuck further suggest the value of seeing reputation as shaped by “theatrical” strategies and actions, a perspective that the field of public relations would soon adopt, followed eventually by the late twentieth-century consulting firms specializing in corporate crisis management. Firms that operated in the gray area between upright behavior and illegal imposition tried to fit themselves into accepted social plots. There were legal advantages to framing a narrative of worthy commercial action, especially if that story was backed up by friends with social standing and accompanied by the right sort of apologies and promises to do better.

Finally, this episode underscores that business reputation on the entrepreneurial margin was frequently the outcome of highly contested affairs, determined not only by the capacity of firms to activate networks of friends and provide the right sort of social cues, but also by their selection of enemies. Sears faced trouble from the Post Office in part because of complaints from local retailers. Fortunately for him, those retailers had not yet mobilized into a national force as they would a generation later. Other American entrepreneurs of that era who pushed the boundaries of accepted marketing practices, but whose commercial antagonists possessed far greater economic power (and more of their own reputational capital), had a much tougher time.
In the mid-1960s, a few critics singlehandedly upended corporate reputations. Rachel Carson’s *Silent Spring* abruptly overturned the assumption of “better things for better living . . . through chemistry” with her accounting of DDT and other toxins. Another book looked at autos. Whereas conventional wisdom held that consumers caused accidents through their carelessness, Ralph Nader pointed to vehicles’ problematic design that left people vulnerable to injury. Once good reputations had been replaced with bad, regulation soon followed. Regulation secured safe products for the buying public since consumers could no longer remain confident in formerly reputable corporations.2

These two examples suggest regulation has served as a substitute for corporate reputation, but other relationships between regulation and corporate reputation suggest themselves. Consider for example an upstart in the automobile industry. In the 1920s and 1930s, Walter Chrysler distinguished his firm through technological improvements. As Michael Schwartz recounted, Chrysler proved nimble in being able to upgrade his brakes, engines, and other components; he also achieved important cost savings and saw his sales increase despite the onset of the Great Depression. Chrysler thus built a good corporate reputation.3

Examining auto safety in the years before 1920, however, suggests another perspective. In 1910, automobiles posed greater safety risks than they did when Nader wrote his exposé in 1965. Still, there was no spectacular scandal in 1910. The closest was a lawsuit Donald MacPherson brought against Buick when his vehicle’s defective wheel collapsed and he suffered severe injuries. In the history of product liability, Judge Benjamin Cardozo’s 1916 ruling was a landmark. It made clear companies were obligated to test their products for safety before selling them. But it is unlikely that Cardozo’s ruling by itself curbed automakers’ behavior. Nor did new federal regulation respond to the


tide of car accidents. Nor did any major auto company on its own initiative try to build a distinctive reputation based on safety. Auto safety nevertheless improved to a considerable degree after 1910 and before Nader’s attack. During the 1910s and 1920s, a web of agencies—some private like the insurance industry’s Underwriters’ Laboratories and some public like state motor vehicle administrations—forced the very largest companies to make technological changes so as to improve safety beyond what they had done voluntarily.4

An alternative relationship between corporate reputation and regulation follows from considering the consequences of a particular regulation. It is possible that once regulation is in place it has the effect of stimulating innovation in a novel direction.5 Firms that were able to innovate to meet the regulatory standards stood to benefit. Autos also offer an example of this point. In the early 1970s, the Clean Air Act required the reduction of various toxins in the atmosphere. As historian Margaret Graham has explained, Corning proved highly innovative in developing the material needed to make the catalytic converter function properly. Corning assisted the giant automakers in getting out of a regulatory bind, and through its successful research the firm was able to enhance its own reputation.6

Looking at the years after regulation took effect invites a more complicated picture of the relationship between corporate reputation and regulation. Given bad behavior on the part of companies, regulation acted as a substitute for corporate reputation. Regulation also served as one component of a collection of oversight entities that pressured firms to pursue technological improvements that enhanced safety. And regulation created new standards under which highly innovative firms could promote technological change to meet social goals and elevate their reputations.

The books by Carson and Nader offer one additional perspective. Silent Spring and Unsafe at Any Speed helped cause a “paradigm shift.”7 Carson changed the way that Americans saw chemicals, not as controlling nature for humans’ benefit, but as a source of environmental

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4 This account of the early auto industry is based on Sally H. Clarke, Trust and Power: Consumers, the Modern Corporation, and the Making of the United States Automobile Industry (New York, 2007). On Cardozo’s ruling, see MacPherson v. Buick, 111 N.E. 1050 (N.Y. 1916).


7 Thomas Kuhn, The Structure of Scientific Revolutions (Chicago, 1962).
Nader’s book prompted Americans to wonder how auto design could leave them at risk to injuries. Both cases suggest that corporate or industry reputations rested in part on assumptions Americans made about the effects of technology. When those assumptions were called into question, people altered their perceptions of business. Looking at other historical eras, we can ask whether critics who questioned assumptions about technology also upset corporate reputations.

Reputation and the Foundations of Trust in Economic Transactions

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Recent empirical evidence provides insight into just how important reputation is for businesses and for what types of contracting. For example, in early 1997 the Xerox Corporation began to inflate reported earnings by accelerating its recognition of revenue on equipment lease contracts. Rather than recognizing revenue when lease payments were made, it booked the full stream of expected lease payments when the lease agreement was made. The effect was to increase near-term revenue and earnings. This reporting strategy helped to boost Xerox’s share price through much of 1999. Xerox’s revenue-accelerating reporting scheme, however, came with a built-in flaw. The only way such a scheme can work and not be discovered is if the company generates sufficiently high real growth to make up for, and to cover up, the eventual shortfall in future periods’ revenues. Xerox was unable to generate such high sales growth, and eventually was forced to recognize that it would not be able to cover up its aggressive reporting practice. On October 8, 1999, the firm announced that its third-quarter earnings would not meet projections. Investors correctly inferred that the announcement was only the tip of a larger problem, and the stock price fell dramatically. In

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the ensuing months Xerox made additional disclosures of earnings shortfalls. The U.S. Securities and Exchange Commission (SEC) launched an investigation of Xerox’s reporting practices in 2000, and eventually the firm was penalized for misrepresenting its financial statements.

Xerox’s misleading financial reports did work to boost its share price—for a while. In a recent article I report that its market capitalization was artificially inflated by about $1 billion by October 1999.10 When its misreporting was revealed to the public, however, Xerox’s share price did not simply drop to wipe out the artificial share price inflation. It fell much further, by a total of $5 billion.

Of the $5 billion loss, only $1 billion, or 20 percent, was the reversal of the artificial share price inflation. An additional $500 million of the loss can be attributed to amounts Xerox paid in fines and to settle a class action lawsuit. The rest of the loss—$3.5 billion—reflects investors’ expectations of impaired operations and sales because of the revelation of misconduct. This is the value of Xerox’s reputational loss. Recent findings indicate that reputational losses arise because the firm’s counterparties change the terms with which they are willing to do business with the firm. For example, lenders charge higher interest rates to firms that manipulate their financial statements, and customers stop buying from firms that sell fraudulent products.11

While reputation provides a powerful market-based incentive to perform honestly, it is not a panacea that deters all types of misconduct. For example, John Lott, Eric Wehrly, and I show that the reputational losses for environmental violations are negligible.12 The people who are harmed by an environmental violation generally do not have direct business with the firm, so there is no market mechanism through which the polluting firm pays for the costs it imposes. From 1999 to 2001, for example, employees of a subsidiary of Tyco International dumped wastewater containing high levels of lead, copper, oil, and other chemicals into the public water treatment systems of two cities in Connecticut. In an attempt to cover up its pollution, company employees altered

wastewater samples and falsified reports to the U.S. Department of Environment Protection. Tyco’s actions imposed real harm on a lot of people, but not, in general, the people with whom Tyco did business. Tyco eventually faced stiff fines and penalties to help clean up its pollution. But it did not suffer a reputational loss in the form of lower sales to customers or higher input costs.

These examples illustrate both the importance and limitations of reputation as a force to encourage truthful dealings and transparency in business transactions. Every day, we trust that our groceries are generally healthy and wholesome, that firms’ financial reports are generally sound, and that our automobiles are safe. Regulatory oversight accounts for some of this trust, but the evidence indicates that penalties imposed by market transactions—i.e., lost reputation—is many times larger than the sum of all penalties imposed by regulators and courts.\(^\text{13}\) Consumers’ and investors’ trust sometimes is violated, but the fact that fraud and product failure are newsworthy indicates how relatively rare they are. Reputation is not a panacea—for example, the evidence indicates that it does not incentivize firms to avoid pollution. But for most transactions, reputational concerns provide huge incentives for firms to treat their customers, suppliers, employees, and investors well.

Reputation the Way It Used to Be

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Founded in 1903 by a group of powerful New York banks led by iconic financier J. P. Morgan, Bankers Trust New York Corporation rose to become a multibillion-dollar bank holding company, and was one of the largest commercial banks in the United States until 1994. Does reputation carry the same weight in today’s financial industry as it did thirty years ago? The case of Bankers Trust is illustrative.

Bankers Trust’s initial business was serving as trustee and managing investments held by clients in trust. Because Bankers Trust did not compete with other state and national commercial banks for loan customers or for customers in search of interest-bearing deposit accounts, banks all over the country turned to Bankers Trust to handle their trust business.\textsuperscript{14} Bankers Trust’s backing by the New York banking elite, and particularly by J. P. Morgan, helped it to earn the trust of its clients, which were almost exclusively other banks. The bank’s strong performance during the October 1907 money panic further “bolstered the company’s reputation.”\textsuperscript{15}

Bankers Trust emerged from the Depression intact and even financially strong. By 1965, Bankers Trust Company was in high-growth mode. The bank was transforming itself into the prototype for the modern multifaceted investment bank.

Charles Sanford, the new CEO, who was promoted directly from the trading floor, was emblematic of this metamorphosis. During the Sanford era the bank pioneered the use of modern financial theory to guide its investment strategies. The company’s system of assigning risk factors to its assets became the world standard for evaluating, controlling, and measuring risk. This system, called risk-adjusted returns on capital (RAROC), not only improved Bankers Trust’s financial performance substantially, but also improved the bank’s reputation in the financial world and solidified the company’s reputation as an industry leader. The RAROC analytical framework was used to evaluate transactions and reallocate capital from low-return to high-return business.\textsuperscript{16} Under Sanford, Bankers Trust “transformed itself from a second rate, ill-focused, near insolvent commercial bank into a dynamic, well-capitalized, highly profitable merchant bank.”\textsuperscript{17} Bankers Trust came to dominate the world of merchant banking, which involves making big bets with one’s own capital, because with its better measures for measuring risk it could outcompete its competition. It came to specialize in buying and selling—for its own account and for the accounts of customers—complicated financial derivatives, particularly swaps.


Bankers Trust’s ability to avoid the losses associated with the New York City financial crisis in 1975, and the fact that all other lenders followed Bankers Trust’s decision not to continue financing the City, was a tremendous boon to the Bank’s reputation. In 1977, Bankers Trust earned $20.1 million in revenues; by 1980, this number had more than quadrupled to $83.6 million.18

With Bankers Trust Company’s success, compensation levels within the company rose significantly. Bankers Trust was the first to abandon the traditional, seniority-based compensation policies of the commercial banking industry and began paying on the investment banking model. Under this compensation model, the largest portion of many executives’ compensation came in the form of bonuses, which, in the case of significant contributions to profitability, could be huge.19

Bankers Trust’s reputation for brilliant management in general and for brilliant management of risk exposure in particular also influenced regulators. Years before the Basel Capital Guidelines acknowledged the practice, Bankers Trust became the first U.S. financial institution allowed by bank regulators to adjust its own capital levels on the basis of asset risk exposures calculated by its own models. This, of course, was a historic achievement, and reflected either great trust in the bank on the part of regulators or a stunning degree of regulatory capture.

Bankers Trust gradually began to think differently about its traditional business, and this was the beginning of the end for the company. The company saw its clients not as customers but as counterparties to the trades that Bankers Trust developed. Reputational risk played no role in the myriad risk factors that Bankers Trust’s RAROC models tried to measure. These models looked only at the payout matrixes for individual trades.

Failure to look at the reputational risk of its trading practices came back to haunt the bank when, in April 1994, Gibson Greeting Cards and Procter & Gamble sued Bankers Trust, claiming that the bank had sold them high-risk, leveraged derivatives without giving them an adequate disclosure of certain material risks. These swaps appeared to allocate almost unlimited risk to the Bank’s clients and most of the upside to the Bank.20 The clients lost millions of dollars on these trades, but Bankers Trust lost its reputation, its top officers, and ultimately its independence.

The death knell for Bankers Trust was the release of 6,500 audiorecorded conversations in which traders and sales personnel made it clear...
that they had no concern for the interests of their clients. As one employee was recorded telling a coworker: “Funny business, you know? Lure people into that calm and then just totally [rip them off].”

Ultimately, Bankers Trust’s sharp trading practices hurt several of its clients, but these clients survive to this day. In contrast, Bankers Trust itself, while making money on these specific trades, no longer exists because its traditional corporate clients no longer wanted to do business with the firm. Interestingly, while Bankers Trust could not survive its loss of reputation, a couple of decades later the companies that took its place at the epicenter of finance routinely engaged in conduct at least as serious. These firms were sued by the government and settled for hundreds of millions of dollars but they still flourish, leading one to doubt that reputation matters in the same way today as thirty years ago.

Reputation at the Birth of Corporate Governance

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Merchants initially relied on relatives to serve as agents. When trade relations expanded during the Middle Ages, the pool of immediate family members could not meet merchants’ needs. The challenge was how to select reliable agents from wider circles.

Institutions that enhanced the effectiveness of reputation mechanisms were the key. Let’s examine a few examples. In the era of the Cairo Geniza (tenth to thirteenth centuries), for example, Maghribi (North African) Jewish merchants formed a coalition in which each merchant reported to other merchants on the malfeasance of his agents. The collective of merchants inflicted sanctions on agents who breached their duties. The Jewish merchants trading with India in the same era formed a hub in Cairo and a sub-hub in Aden. These hubs ensured that all the information about the state of affairs, market conditions, and

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behavior of agents in India would flow through a single hub. By the twelfth century, Venice provided its merchants with infrastructure that enhanced information flow. Officials on board ships and in warehouses in the eastern Mediterranean recorded and reported not only on market conditions but also on the behavior of individual agents. The Armenian merchant network of the seventeenth and eighteenth centuries also used a hub in New Julfa (Isfahan) in order to enhance the reputation mechanism. Agents went back and forth between New Julfa and trade destinations ranging from Manila to London. Information arriving in New Julfa from the numerous agents allowed the established merchants to detect cheaters and to punish them by way of ostracism from the network and social sanctions on their families.

But even these institutional innovations went only as far as the boundaries of the network. They did not foster impersonal or cross-cultural collaboration. When the English and the Dutch wished to enter oceanic Eurasian trade around 1600, they had to overcome huge hurdles. They came from further afield, had no domestic goods that were in demand in Asia (wool and herring were non-starters) and had to beat the preexisting reputation-based networks that had already achieved technological adaptation to Indian Ocean shipping and whose merchants had achieved know-how of market conditions. They had to innovate institutionally in order to compensate for their fundamental inferiority in other respects.

Their vital innovation was to raise capital on an impersonal basis from passive investors in the framework of the English East India Company, established in 1600, and the Dutch East India Company, established in 1602. The two companies combined the corporate legal entity with joint-stock finance.

The crucial issue in forming these companies was reputation. How could the entrepreneurs that established these companies convince investors, be they aristocrats, gentry, craftsmen, or merchants, to part with their money? They ensured an initial phase of repeated transactions

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before asking for a longer-term lock-in of capital. The permanent Dutch East India Company was formed only after seven years of experiments with pre-companies that lasted for one voyage each. In the English case, joint-stock was raised initially per voyage and only after twelve voyages had been sent over twelve years was a joint-stock for a long term of years instituted. In addition, a variety of governance mechanisms were created to ensure the flow of information, the participation of shareholders in decision-making, and the availability of an exit option through the secondary market in shares.

The ability to raise large capital domestically from passive investors, without resorting to taxation, by introducing effective reputation-building mechanisms, allowed the British and Dutch to better mitigate the traditional principal-agent problem. Thanks to the capital they raised voluntarily at home, both the English East India Company and the Dutch East India Company were able to operate large commercial fleets, equip and send repeated and frequent voyages to Asia, and establish permanent factories and headquarters in several ports around the Indian Ocean. This commercial activity enhanced the flow of information. It allowed managers permanently residing in hubs in London and Amsterdam to more effectively monitor agents spread from the ports of East Africa and Arabia to the Spice Islands of Indonesia.

The transformation from personal agency to impersonal investment roughly parallels the transformation from family-, ethnic group-, and network-based trade to corporate-based trade. The questions of who had a good reputation and who had a bad one, whom one could trust and entrust money to, were unaltered, but the relationships to which they applied changed, as did the institutions that provided answers to these questions. If in the earlier era the reputation of traveling


commercial agents was at the center, and institutions were designed to enhance and support the functioning of reputation in this context, in the post-1600 era the reputation of corporations and their executives vis-à-vis investors was at the center, and institutions were designed to foster this type of reputation. Corporate governance made its first formative steps in the first decades of the seventeenth century.

Reputation as a Political Product

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In the post–World War II period, policymakers often premised the need for regulation or economic reform on the inability of the private sector to create a specific product or service in a socially responsible manner. As President Eisenhower remarked in 1955, “the Federal government should perform an essential task only when it cannot otherwise be adequately performed.”30 This sentiment encouraged business leaders to promote the idea that their industry operated in the public interest. Hence, public reputation became increasingly fought-over terrain. Some business leaders attempted to cultivate their reputations by, in a sense, creating a “political product” that would help them avoid government regulation.

The health insurance sector provides an excellent example of how corporate reputation during the mid-twentieth century was intricately related to political influence. The American Medical Association (AMA), then and now the largest association of physicians in the country, used its power over the medical care system to insist upon a specific insurance company model—one that drove up costs by allowing physicians to remain completely autonomous while rewarding them financially for providing as many services as possible. Because they recognized that these arrangements would drive up medical prices, insurance companies decided to severely restrict health care coverage, limiting benefits

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to reimburse only a portion of hospital costs and reserving these policies for the healthy.

Policymakers in both parties agreed that the private insurance sector was developing inefficiently, thus creating inadequate and expensive health care coverage. During the 1940s, President Truman attempted, but failed, to displace the faulty private sector model by nationalizing health insurance. In the following decade, many of the Democrats and Republicans who had opposed Truman’s measure as too radical nonetheless also offered legislative reform initiatives in an attempt to expand insurance coverage and make it more generous. For example, in 1954, Eisenhower proposed a federal program of “reinsurance” to offset the losses that insurance companies incurred when they liberalized benefits or sold coverage to high-risk subscribers. Leading congressional Republicans proposed a universal nonprofit insurance system with government funding to calibrate premium prices to subscriber income.31 Although these moderate reform proposals also failed, they, along with Truman’s plan, had a profound impact on the private sector.

The persistent litany of reform legislation awoke both physicians and insurance companies to the idea that more attempts at government interference in health care were on the way—unless they were able to change the nature of the political debate. The AMA and insurers therefore joined together to combat reform proposals by improving the reputation of health insurance. If policymakers premised the necessity of reform on the inability of medical insurance to reach most of the population, then insurers would rapidly spread coverage. If policymakers indicated that insurance failed to cover enough services, then insurers would dramatically liberalize policies. Through their trade association, the Health Insurance Association of America (HIAA), commercial insurers took extraordinary steps to expand medical coverage to more groups, including high-risk groups. They depressed interfirm competition to share a range of information, including marketing plans and expertise about medical care. Insurers also lobbied state governments for legislation that allowed their companies to pool resources and administrative capabilities in an effort to provide the difficult-to-insure elderly with coverage. Moreover, insurers transformed the average insurance policy: it evolved from only paying a percentage of hospital bills to covering most health care costs; including physician visits, x-rays, labs,

31 Scholars have examined the Flanders-Ives proposal as a substitute for Truman’s 1949 plan. The Flanders-Ives bill was reintroduced in 1953 and again in 1955 as an alternative to Eisenhower’s reinsurance plan. Insurance industry representatives intensively lobbied the Eisenhower administration for assurances that Republican policymakers would not back any reforms that privileged nonprofit plans over commercial insurance companies.
and small bills associated with routine illness. As they refurbished their reputations among some policymakers, members of the press, and consumers, private actors embedded an inherently inefficient and expensive insurance model into the medical system. 32 Indeed, this model orders health care arrangements today.

This is just one example of industry “reputation-building” and its role in the development of political economy frameworks. Another example can be found during the postwar period in the way that bankers attempted to improve the mortgage industry’s reputation by more readily and enthusiastically participating in home lending, despite more attractive conditions in other lending sectors. 33 They endeavored to improve their public image because they feared continuing liberalization of the Federal Housing Administration insurance program in the form of lower interest rates and down payments.

As these examples demonstrate, industry leaders have learned to craft “political products” to prevent further regulation or to effect a desired political outcome. This process continues to alter American market and governmental institutions.