where the proportions are reversed, and the value-added of subcontractors is less than 30%. To the extent that industrial structures differ across countries in the *same* industry, the reasons for the differences should be of interest. Our claim is that the diversity of balance sheets and industrial structure reflects the different ways of meeting the challenge of organizing the production of complex, high value goods.

The implications of our analysis on vertical integration shed light on an issue that may at first seem unrelated. The most extreme form of vertical integration is the centrally planned economy. Blanchard and Kremer (1997) coined the term "disorganization" to describe the drastic fall in output and the breakdown of complex production relationships in the countries of the former Soviet Union after 1991 (see also Marin and Schnitzer (2004)). Blanchard and Kremer attribute the fall in output to hold-up problems arising from bargaining between newly decentralized firms, and the recursive nature of the rents along the production chain that undermine complex production relationships. The phenomenon of disorganization can be understood within our theoretical framework, as we argue below.

The prescription that firms should hold interlocking claims against each other is feasible only if they have sufficient resources to maintain production in the initial period while the receivables (essentially, the unpaid invoices) mount up. Some recurring obligations, most notably the wage bill, cannot be deferred and must draw on the firm's cash holdings. The firm must have sufficient working capital to meet such obligations during the initial build-up phase. Receivables can sometimes be sold to (discounted by) specialist factoring firms that purchase the unpaid invoices, and take on the rights to the future cash flows.[4] However, there are limits in principle to how much

[4] See Brealey, Myers and Allen (2005, ch. 30).