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THIRTY YEARS OF BUSINESS AND POLITICS

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THIRTY YEARS OF BUSINESS AND POLITICS

An invitation to review progress in any subfield in the social sciences present first the challenge of assessing the state of the field at some point in the past and then to confront the awkward question of what constitutes progress in political science.

The Olden Days

What was the state of our knowledge of the relationship between business and politics in the late 1960s when some of us present were undergraduates? First, there were relatively few empirical studies of business and government. Perhaps the most famous study was Bauer, Pool and Dexter’s *American Business and Public Policy*, a monumental effort that suffered from the disadvantage of being under-theorized in numerous respects, some of which Lowi noted and many of which he did not. In spite of the comprehensive reach suggested by the title, the book was a study of a single policy (the tariff) and as Lowi noted, a policy of type that was likely to generate a particular type of politics in which business would be set against business. One of the odd consequences of the limited number of studies of business and politics at the national level was that there was a tendency to extrapolate to the national level conclusions drawn from studies of cities such as New Haven. The vigorous debate about “community power” paid

strangely little attention to the possibility that if there had been a dominant elite in the United States, it might have cared little about who ruled at the local level. The shortage of empirical studies of business and politics was at least as bad in the literature on other advanced industrialized nations. Probably the best advice one could offer a student trying to write on business and government in Britain would have been to turn to the general literature that had been developing on interests groups such as Finer’s *Anonymous Empire.*

On a more theoretical level, the study of business and politics was caught up in debates about pluralism. Bauer, Pool and Dexter shared a belief that the United States had a pluralist political system with the majority of the authors of the community power studies (most famously Dahl). Power was divided between numerous competing and conflicting interests of which business was but one. There was nothing special about the political power of business except, perhaps, that it was somewhat advantaged because it had more money than other interests. As time passed and the debate over pluralism progressed, the original pluralists became more attentive to the inequality of resources between business and other interests. However, a central tenet of pluralism was that at the end of the day, business was just another interest group. In common with most interests, business sometimes won and sometimes lost.

In the era of contentious politics in the United States in the late 1960s and 1970s, such a conclusion infuriated radicals. The power of business, critics of the pluralists contended, was not limited to observable forms of power such as lobbying or making

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5 Robert Dahl *Democracy and Its Critics* (New Haven: Yale University Press, 1989.)
campaign contributions but included second and third faces of power. In the second face of power, business was able to keep unwelcome proposals off the political agenda; in the third face of power, business enjoyed a hegemonic ideological power that prevented people from even conceptualizing challenges to its interests. Those of us who suffered through the power debate have no wish to revisit it. The advocates for the third face of power in particular were soon driven into the position of asserting that they knew what people (particularly workers ought to believe if they were smart. Unless one knew what people ought to believe, one could not know for sure that they were victims of a third face of power that resulted in them believing something else. The pluralists’ assumption that people might know there own minds and defines their preferences seemed preferable.

Marxist analyses of business sand politics were also under-developed. Some contended merely that the state was the executive committee of the bourgeoisie and that nothing more needed to be said. Others such as C. Wright Mills and Miliband tried to link marxist perspectives with elite theory. The result was neither convincing nor theoretically coherent. In Miliband’s writings, for example, criticisms of the established system were jumbled together so that it was unclear whether his complaint was that the state was necessarily subordinated to the needs of capitalism or that too many higher civil servants had been educated at Oxford.

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7 C. Wright Mills *The Power Elite* (Oxford: Oxford University Press, 1959.)
What is Progress?

Some forms of progress are easy to describe. Most if not all areas of political science benefit from the accumulation of more, and more carefully conducted, empirical studies. There have a number of very useful empirical studies of business and politics in American politics that should be noted. Smith’s study exploring when American corporations win and when they lose is a particularly impressive book using a variety of methods and perspectives to address the topic. There are other useful and informative studies, however. Cathie Jo Martin has made two very helpful contributions. The first is a study of the formation of coalitions between different corporations and industries on tax issues. The second explores the field of business attitudes to social reforms, particularly health insurance; attitudes that turn out to be more varied and nuanced than most people would suspect. Sandra Suarez has provided a very interesting study of the evolution of corporate political strategies on a single issue; the defense of valuable tax breaks for firms operating in Puerto Rico. I. M. Destler has continued to provide us with a steady flow of interesting books describing and explaining the politics of trade in the United States. Martha Derthick has described how the apparently powerful tobacco companies

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were challenged successfully by the Attorneys General of the states and forced to pay a large settlement, most of which has been squandered.\textsuperscript{13} No list, no matter how brief, of major works on business and politics in the United States would be complete without reference to David Vogel’s books on regulation and on the power of business.\textsuperscript{14} Goldstein has provided a valuable study of how businesses in the health care industry used their resources to maximum effect when the field of conflict was widened during the debate on the Clinton health care proposals.\textsuperscript{15} Finally, we should note the predictably large army of political scientists who have beavered away using the readily available Federal Elections Commission (FEC) data to try to determine definitively whether or not Political Action Committees (PACs) changed the outcomes of legislative conflicts; no clear answer has ever emerged from this debate.\textsuperscript{16}

We have also benefited from the development of what to use one of the most and most loosely used adjectives in political science, of theoretical perspectives. This is, of course, the more prestigious and generally less onerous type of work to undertake. With some reluctance, it is however the area to which I shall pay more attention in this paper

\textsuperscript{13} Martha A. Derthick \textit{Up In Smoke: From Legislation to Litigation in Tobacco Politics} (Washington DC: CQ Press, 2002.)


\textsuperscript{15} Kenneth M. Goldstein \textit{Interest Groups, Lobbying and Participation in America} (New York: Cambridge University Press, 1999.)

\textsuperscript{16} For a critique of this literature see Frank M. Baumgartner and Beth Leech \textit{Basic Interests: The Importance of Groups in Politics and Political Science} (Princeton: Princeton University Press, 1998.) For opposite views of the effectiveness of campaign donations see Jack R Wright \textit{Interest Groups and Congress: Lobbying, Contributions and Influence} (Boston: Allyn and Bacon, 1996) and Darrell M. West and Burdett Loomis \textit{The Sound of Money: How Political interests Get What They Want} (New York: W.W. Norton, 1999.) For a more nuanced view as requested by Baumgartner and Leech rather than an “either influence or no influence” see Jack R. Wright “PAC Contributions and Voting on Tobacco Policy in the U.S. Congress, 1981-2000” Paper presented to the Annual Convention of the Midwest Political Science Association, Chicago, Illinois, 2002.)
because the subfield of business and politics has benefited particularly from advances in theoretical perspectives. The most important developments of this type have increased our awareness of the structural power of business, the varieties of capitalism and the linkages between domestic and international factors.

It would seem probable that the increased attention to the structural power of business developed from the greater awareness of marxism (along with other radical perspectives) in the late 1960s and 1970s. The idea that business had a form of power that was not based on political activities such as lobbying, donating money or mobilizing voters had been confined to the political extremes until the 1970s. It was then brought into the mainstream of political science by the once eminently respectably pluralist, Charles Lindblom. In *Politics and Markets*:\(^\text{17}\) Lindblom argued that while business was unusually well equipped to play normal pluralist politics, its major power came from its ability to shift investment into polities with the policies that were the most sympathetic to business. Politicians did not need to be bribed or cajoled into giving business what it wanted; they had only to recognize that the long term prosperity of their constituents was dependent on doing so. Lindblom’s argument has been much attacked. Several major criticisms have been made of his argument. Business, orthodox pluralist critics correctly noted, does not always get what it wants. While some businesses can indeed pick up and move to a more sympathetic political environment others are tied by a need for raw materials or markets to a particular location. What business needs is not always obvious or clear particularly to business executives; the “big government” attacked in gold clubs by business executives may provide the vital underpinning for a new industry

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(computers, long haul jets) or the stability of the entire social order without which capitalism could not exist. Yet Lindblom’s argument had force. After fading from the scene in the 1980s, it has reappeared in new form in the argument about globalization or, in Streeck’s work, about the consequences of the creation of a dingle market within the EU.\textsuperscript{18} The dreaded (if rarely observed) “race to the bottom” is powered by a Lindblomian logic; businesses move investment or production to polities in which they are treated best.

The second change in perspective that advanced our understanding was the widespread realization that there were a variety of successful capitalisms. The varieties of capitalism reflected contrasts in the relationships between the state, capital and labour in the varied histories of advanced industrialized nations. These contrasting relations between the state, capital and labor were themselves the result of both different path dependent processes and critical choices made at key turning points by powerful actors. Put more simply, different countries have different types of capitalism both because they have different histories. These differing types of capitalism were not arranged in some hierarchy with the American form at the top and others suffering from variety of disabilities (though many journalists in the United States still see the world this way.) Indeed, some varieties of capitalism were arguably better at solving some problems of capitalist systems than the American variant. Stronger trade associations than are found in the USA, for example, can organize training better. In the United States, training is left to individual employers who face a collective action problem. An American employer

\textsuperscript{18} Wolfgang Streeck \textit{From National Corporatism to Transitional Pluralism} (Notre Dame, Indiana; Kellogg Institute, 1991.)
who provides costly training may see the skilled workers that he or she has trained leave and be hired by rivals. German trade associations are able to solve this collective action problem by providing training for an entire sector. The close relationship between major banks and manufacturing corporations in Japan facilitates long term investment by freeing managers from the need to generate profits quickly in order to satisfy stockholders of pay off short term loans. In contrast, American and British firms have to raise capital from the stock market or in short term loans. They are therefore less able to develop long term projects. Finally, more organized forms of capitalism provide useful partners in governance in the form of trade and peak associations. More organized forms of capitalism create additional policy options for governments such as incomes policies and allow governments to devolve tasks such as training or managing health insurance programs onto business organizations and unions.

This second change in perspective on business-government relations is reasonably easy to date. By far the most influential book was Shonfield’s *Modern Capitalism*.\(^\text{19}\) Shonfield, it true, did believe that some forms of capitalism were superior to others; the more planned and organized forms of capitalism were more advanced than more purely market based. However, his great contribution was to make the fact that there was a variety of successful capitalism much more widely known. The great success of Barrington Moore’s work in the 1960s helped diffuse knowledge of the different paths to modernity capitalist countries have taken.\(^\text{20}\) In the 1970s, Schmitter’s focusing of attention on the question of whether it was still the century of corporatism stimulated


interest in organized collaboration between business, the state and labour\textsuperscript{21}. The belief that there are a variety of capitalism and that the American variant is not necessarily the best became the new orthodoxy in academic circles. Not until the growth of interest in globalization in the 1990s was this orthodoxy challenged. Some writers on globalization held out the prospect that in the new international economy, the American variant of capitalism would after all turn out to be the only one viable. However, most academics (as opposed to more popular writers on globalization) rejected this argument determinedly.\textsuperscript{22}

The focus on varieties of capitalism had one immediate benefit for political scientists, which was a more sophisticated understanding of interest group systems. Most of the early studies of interest groups were carried out in the United States. Perhaps inevitably an assumption that all interest group systems were more or less pluralist carried over into comparative politics. As late as the 1960s it was common to find books, or even series of books, in comparative politics that assumed that an American


framework could be used to comprehend interest group politics in other advanced democracies.\textsuperscript{23} The increased awareness of the varieties of capitalism put an end to that assumption. Whether or not Chalmers Johnson was carried away by his admiration for MITI\textsuperscript{24}, he did show that business-government relations in Japan were very different from a pluralist picture of the United States. Whether or not Schmitter was too admiring of neocorporatist systems, he did show that in those countries where it prevailed – and arguably in certain sectors in he UK and USA – relations between business and government were not well described by pluralism.

The third and most recent change in perspective on business government relations is the globalization debate. Perhaps because unusually this debate is sparked by a concern with real world events rather than the development of a new academic fashion, it is difficult to characterize. The “hyper globalizers” contend that the rapid increases in the ease and volume with which goods and capital circulate in the world today business government relations have been transformed. The ability of governments to adopt policies unwelcome to business such as higher taxes or stricter regulations has been significantly reduced by the increased ability of business to shift production and investment to polities in which it receives the most favorable deal. In consequence, governments must accommodate to market forces.

The debate over globalization has not really involved the creation of new theoretical perspectives. The argument for the “race to the bottom” as a consequence of globalization is essentially the same as Lindblom’s argument that business enjoys a

\textsuperscript{24} Chalmers Johnson \textit{MITI and the Japanese Miracle: Industrial Policy 1925-75} (Stanford: Stanford University Press, 1982.)
“privileged position.” Arguments to the contrary such as Vogel’s claim\textsuperscript{25} that we see more trading up than racing to the bottom in regulatory standards assert (quite plausibly) that political pressures, in this case from environmental groups, prevent governments following an approach that is economically rational, namely racing to the bottom. Those who argue for the viability of the “Rhenish model” of capitalism\textsuperscript{26} or superiority of competitive corporatism as responses to globalization also make arguments that are fundamentally the same as those advanced before the globalization debate began. The debate about globalization is a debate about whether the values of well-known variables have changed, not a major theoretical departure. Yet if the debate about globalization has little that is theoretically original about it, the debate is nonetheless theoretically valuable. The globalization debate has served the valuable purpose of linking domestic and international perspectives, breaking down boundaries between the international relations, international political economy and the study of domestic politics and policies. Most of us who wrote on the relationship between business and government in the past did so with little regard to the international context in which the country about which we wrote was embedded; Katzenstein with his argument that neocorporatism derives at least in part from being a small state in a world market is an obvious and honorable exception.\textsuperscript{27} The rest of us were probably wrong to neglect international influences. Of course, trade, capital movements and the liberalization of the world economy were all less advanced then. It would seem perverse today given the changes that have occurred in the relative importance of external economic forces to neglect their impact on government-business

\textsuperscript{25} David Vogel \textit{Trading Up}

\textsuperscript{26} An obvious such admirer is Wolfgang Streeck

\textsuperscript{27} Peter J. Katzenstein \textit{Small States in World Markets: Industrial Policy in Europe} (Ithaca: Cornell University Press, 1985.)
relations today. Even if ultimately rejected, arguments that patterns of business-government relations such as the Swedish neocorporatism and the Japanese developmental state were undermined by changes in the relationship between those countries’ economies and the global economic system demand consideration.

All in all, the subfield of business and government has made real progress over the last thirty years. We know more in the sense of simply having more information than in the past. We also understand more because we have acquired more and better perspectives on the relationship.

*What Is To Be Done?*

If the subfield has made much progress over recent decades, it is equally true that much remains to be done. While it is exciting to see that there is now a steady flow of new books on business and politics in the United States, it is also the case that there are dramatically few political scientists working on the topic compared with the numbers engaged in fields such as voting behavior. At least in the United States, opportunities remain for the field to advance simply by having more scholars study how more businesses are linked to government. One obvious strategy would be to explore whether business political strategies differ systematically from one sector to another. This approach has been tried to some degree in PAC studies but could be extended to cover other aspects of business-government relations. Yet a sectoral approach has obvious deficiencies. The political styles of corporations in the same industrial sector often differ considerably one from another. BP and Shell, for example, are very different political animals from Exxon or Mobil. Moreover, in an era in which most large corporations are

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engaged in several different industrial sectors, it is hard to see why sectors rather than corporations should be the unit of analysis. Claims that sectors have characteristics that determine the political strategies of businesses within them are at best hypotheses to be investigated.

Globalization continues to provide important challenges for political scientists. It may be worth watching to see whether even if there is no race to the bottom, governments are at least walking in that direction. Globalization, it could be argued, is a process. The absence of early signs of a race to the bottom does not exclude the possibility that governments will gradually reduce taxes and regulations business dislikes. A more fruitful research strategy might be to pose a more open-ended question; how have governments responded to globalization? It is clear to the casual observer that there is considerable variation in governments’ responses and that these responses are not clearly path determined. The adoption of neocorporatist policymaking in the Republic of Ireland is a case in point; it remains to be seen whether or not the arguments that Japan and Germany need to make fundamental changes to cope with globalization are born out or not.

An important area for research will be to study whether or not international organizations emerge that compensate for any limitations on the power of national governments due to globalization. One obvious tactic for governments or groups that wish to regulate business to follow in an era of globalization is to develop international organizations to carry out tasks once entrusted to national governments. This process of internationalization may be regional or global. The appeal of the EU for the European left is that a regional government has a capacity to regulate business that national
governments might have lost. A harmonization of tactics and regulations across the EU may be hard for business to prevent or evade through the use of its “privileged position.” It is one thing to threaten to move investment from France to Spain; it is much less convincing to threaten to leave the entire EU. Yet international organizations are not generally popular on the left. All international organizations –even the EU – are seen as suffering from a democratic deficit that limits their responsiveness and accountability to citizens. International “civil society” is less developed than domestic. Public interest groups (or NGOs are they become known in IPE) have struggled to gain access to bodies such as the WTO let alone to have as much influence there as they enjoy in the US Congress. Yet even the WTO has made important concessions to public interest groups, probably because it fears the ability of environmental groups to use their leverage in domestic political institutions (particularly the US Congress) to prevent further trade liberalization. It will be intriguing to see whether or not governments and interest groups that wish to restrain and regulate businesses are able to develop international organizations more fully to serve these goals.

One development that might cause us to change our research focus somewhat is that one clear trend in government policies in response to globalization has been to emphasize governance rather than governing.\(^{29}\) That is to say, governments that are fearful that reliance on traditional policy will cost their countries investment and growth have attempted to achieve policy goals through more consensual forms of policy making and implementation, encouraging businesses to be partners in pursuit of a common policy goal rather than recipients of commands and decrees. This process has received some

attention in discussions of the spread of competitive corporatism. The most striking examples of this trend are however in countries in which a governance approach has not been common.

In the UK, for example, the Labour government has followed a deliberate strategy of trying to raise standards of environmental performance not by raising regulatory targets but by mobilizing private sector actors to put pressure on corporations to do so. The government has worked to persuade Stock Exchange officials, insurance companies and accountants that they share with the government an interest in making sure that corporations have developed adequate plans to identify and eliminate the environmental dangers their activities create. A chemical manufacturer, for example, suddenly found to have damaged the environment and the health of thousands and liable for vast damages and clean up charges would not have been valued correctly before the incident by the Stock Exchange or accountants. Presumably its insurance company would also receive a nasty surprise. The government seems to have made some progress with its campaign. For example, the insurance giant, CGNU, has promised to vote stock it holds against the adoption of any company’s accounts that do not contain adequate environmental management plans.

American states provide similarly interesting attempts to create alternatives to traditional regulation that cut against the grain to their traditional approaches. Wisconsin has attempted to create a new system, Green Tier, that involves a neocorporatist style Council (with environmental groups replacing labour) presiding over a system in which companies are rewarded for having commendable environmental management systems that take them beyond compliance with regulations. The system was designed by officials
of the state Department of Natural Resources who had been impressed by the implementation of environmental policy in the Netherlands and Germany. Under Green Tier, companies that are recognized by the Council as using good environmental management systems to attain high levels of performance will receive awards that it is hoped will help them attract capital, skilled workers and customers. They will also benefit from less intrusive and less adversarial inspections by state officials. New Jersey is one of a number of states that has set out to attain reductions in greenhouse gas emissions consistent with the Kyoto Accords. The reductions are to be achieved by a process modeled on the Dutch Covenant system.

Political scientists will have to be alert to the possibilities for research that these developments create. Research on neocorporatism has sensitized us to the need to study governance as well as governments. Yet most of our experience comes from studying countries in which governments work in partnership with two more or less equally matched interests, business and labour and in which a governance approach fits easily with national traditions. The extension of governance approaches in countries in which it was formerly less common will pose interesting new questions. Are countries able to adopt and implement policy approaches in response to globalization that differ markedly from their traditional policy approaches or do these novel approaches soon break down? Are these new approaches effective policy tools, or merely political window dressing, signs of innovation but not policy effectiveness? Do governance approaches provide adequately for accountability and democratic control or do they advantage a well equipped interest (business) and disadvantage its less well financed critics which have trouble penetrating and operating within less formalized governance procedures than
within normal democratic processes? Political scientists can play a valuable role in policy debates by addressing these questions.

Conclusion

We have indeed made significant progress in the study of business and politics. One way to appreciate the progress we have made is to remember or imagine teaching a course on the subject thirty years ago and contrasts that actual or real experience with the it is like to teach such a course today. The literature available today is more voluminous, more sophisticated and simply better. One of the appeals of political science, however, is that not only our discipline but the phenomena we study are always changing. The still small band of political scientists who study business and politics will not run out of work or opportunities.