

Introduction to *Business and Government**

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The nineteenth century witnessed the rise of both the large corporation and the modern bureaucratic state. By the end of the century, railroad corporations in the United States had attained the highest degree of organizational development that any country had yet experienced in order to operate on a transcontinental basis (Chandler 1977). Modern states, extending their reach into daily life, broke down both political and social barriers to their power. A hodgepodge of principalities and kingdoms that had controlled the territory of what is now Germany was swept away and replaced by structures that inspired Max Weber. Longer established states such as France found capacities to turn “peasants into Frenchmen,” casting aside local traditions and even languages in the process (Weber 1976).

As these trends unfolded, people have struggled to assess the connections between them and their relative importance. This collection asks four key questions about the relationship between business and the state. First, what is the balance of power between these two sets of actors? Is the state dominated by business or is business, as the pluralists contended, merely one among many interests that seek to influence and shape public policy? Second, what trends are apparent in the balance of power between business and government? Have factors such as greater mobilization by business or, in particular, the process of globalization resulted in a shift of power towards business and away from government? Third, how effective or efficient is the relationship between business and

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government in terms of promoting economic growth and development? Is government a drag on economic performance, for example through burdensome and unwarranted regulation, or is government promoting growth effectively through investments in new technology, infrastructure, and education? Finally, can business be mobilized, and if so how, to help solve societal problems by means other than legislation?

States and markets perform essential functions for society: protecting citizens from harm, providing opportunities for prosperity, allocating scarce resources, directing the activities of (self-interested) individuals toward the common good. At the same time, states and markets are also imperfect. The Austrian-born economist Friedrich Hayek commented, the market economy is “a system under which bad men can do least harm” (Hayek 1948, p. 11). In a similar tone, Winston Churchill famously remarked that “democracy is the worst form of government except for all the others that have been tried.” Both statements call attention to the apparent failings that characterize life in both business and politics: corporate executives that collude with their competitors to set prices or pollute the environment; elected officials that place their own political survival over the needs of their constituents or cater to the demands of special interests. While few would consider such outcomes desirable, most agree that “democratic” states and “capitalist” markets minimize the danger caused by ambitious individuals by having them compete against each other in elections and in markets. Thus, while these systems remain imperfect, they may still represent significant improvements over existing alternatives.

Still, the nature of the relationship between business and government remains the subject of vigorous debate. Economists like Hayek (1945, 1948) and Friedman (1962) have maintained that government plays an essential but largely supporting role in the economy by defining and enforcing the “rules of the game.” Viewing markets as self-regulating systems that guide individual behavior toward socially desirable ends, these scholars argued that the best thing government can do in most cases is stay out of the way. This argument was revived in the late twentieth century as the “efficient markets”

argument that regulation by government of financial institutions or of monopoly was unnecessary. The sphere of government, then, is restricted to a select number of essential services, such as providing a rule of law (e.g. enforcing property rights), maintaining competition in markets (e.g. breaking up monopolies), and addressing externalities or spillovers (e.g. fighting pollution). Because markets rely on the price mechanism rather than any “central plan” to coordinate behavior, these scholars also claimed that markets maximize individual freedom.

In contrast, Polanyi (1944) argued that the idea of naturally-occurring, self-regulating markets is nothing more than a “heroic myth.” In his view, the rise of industrial capitalism in the nineteenth century required substantial government coercion to transform the inputs of production—land, labor, and capital—into “commodities” that could be bought and sold through markets. Hierarchies, practices, and values that stood in the way of capitalism were destroyed. The creation of modern agriculture, for example, could not have been achieved without the use of state power to enclose the commons. In order for corporations to build the railroads, the state first had to drive out indigenous peoples or compel property owners to yield their land. Chandler, in more measured tones, extended the argument by emphasizing that the modern corporation itself is a legal creation of the state. Similarly, Horwitz (1977) demonstrated that modern industrial development in the United States was dependent upon a massive revision of common law, changing conceptions of such things as the right to take water or to live unshadowed by a neighbor’s building. These perspectives suggest the dependence of capitalism on the state, a perspective arguably reflected in the “Regulation school” that sees the state as a major force in the stabilization of modes of capitalist production (Jessop 1990).

Going further, others have emphasized the domination of capitalism over the state. Marx and Engels famously declared that “The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie” (Marx and Engels 1848). Marxist scholarship ever since has taken the view, with differing degrees of

nuance, that the state, except in the Communist countries before their demise, is controlled by, or is even the product of, the capitalist mode of production. Many mechanisms have been suggested as a means for achieving capitalist dominance of the state, including the shared social background and education of the leaders of both spheres (Miliband 1969). However, for most adherents to this perspective, the essential dynamic is the structural dependence of the state on capitalist development. This argument has influenced many scholars, including those of a decidedly Marxist persuasion. Most notably, Lindblom (1977) asserted that politicians did not need to be argued, bribed, or persuaded into giving business what it wants; they need only recognize that the prosperity of their city/state/country is dependent on being an attractive location for capitalist investment. Proponents of the importance of globalization (see below) have argued that it has radically reinforced this relationship of state inferiority and dependence. Capital can be moved without controls in a second electronically; goods manufactured in China or Vietnam that were once produced in the US or Europe can be brought there reliably and cheaply through containerized shipping and enter almost tariff free. Governments live in the shadow of the threat that any decision they make on taxing or regulating business may result in its flight to another country.

The discussion so far has taken place on a universalistic basis: states are essential to the creation and maintenance of capitalism or capitalists dominate states. The great contribution of Shonfield (1965) was to emphasize the differences that exist in state-society relations in different countries. His work was particularly important in bringing to the fore business-government relations in continental European economies (as compared with the USA and UK, although he covered these as well). It was in continental Europe, he argued, that governments had developed most effectively mechanisms for the successful control and management of capitalist economies. By suggesting that the relationship between business and government in France or Germany may be fundamentally different than in the USA or UK, Shonfield's work introduced themes that dominated comparative politi-

cal economy in subsequent decades—the literatures on neocorporatism in the 1970s and 1980s and the vast industry of scholars writing on Varieties of Capitalism (VoC) beginning in the 1990s and carrying through to today. Obvious questions included why varieties of capitalism exist, which were the most successful, and whether there was any tendency towards convergence on a single variety.

Comparative Capitalisms

At the time Shonfield was writing, a series of economic success stories were underway. The German economic miracle of the 1950s was followed by the rise of France during the *trente glorieuses* years of economic growth from the late 1940s to the late 1970s. Italy also had great economic success, claiming at one point to have surpassed the UK in terms of gross domestic product. To the delight of people on the left—though ignored by conservatives in the USA—Sweden, and the Scandinavian countries in general, demonstrated that strong unions and generous welfare states could be combined with economic growth. In contrast, the British economy lumbered along at lower rates of growth during this period, prompting an urgent quest for what features of continental European systems resulted in greater success. Beginning in the 1980s, as the European and US economies felt the full force of competition from rising economic powers in Asia—first Japan, then South Korea and China—interest in comparative capitalism intensified. The conservative mantra that the way to achieve economic success was to limit the role of government, weaken unions, and lower taxation looked increasingly dubious.

Comparative perspectives on business and government have since identified a number of different factors that could help explain comparative economic success or failure.

First, as Shonfield had noted, and in conflict with the conventional views of neoliberal critics, economic success was often linked to an active, positive role for the state. The British partially grasped the role of the French state in producing more rapid eco-

economic growth and made limited attempts to emulate French “indicative planning” in the 1960s. However, the full extent of French state-led economic growth was not realized, fatally compromising British attempts to copy it. It was not until the work of scholars such as Johnson (1982) and others on Japan and Korea that the full nature of state-led economic growth was understood. In addition to identifying prospects for economic growth, Japanese and South Korean governments actively assisted businesses identified as growth prospects, for example through providing abundant cheap capital from government-owned savings banks. In the early days of their economic development, governments used more formal powers, such as issuing or not issuing import licenses, as a weapon to secure compliance. Elite integration was achieved through a shared education at elite institutions (the *grandes Ecoles* in France; the University of Tokyo in Japan) and practices such as placing retired senior officials in executive positions in corporations (*pantouflage* in France; the “descent from heaven” in Japan). Senior civil servants rather than elected politicians made the key decisions insulated from short-term electoral pressures by the dominance of the Liberal Democratic Party in Japan and the strength of executive branch in the French Fifth Republic. In South Korea, the sometimes-brutal Park dictatorship limited the prospects for political pressure curtailing growth. Crucially in these state-led models, government provided not only guidance but resources and control to push businesses in the direction of what government believed to be the best prospects for growth.

Second, greater knowledge of continental European practices prompted realization of the potential importance of different structures in business-state relations. In the UK and USA, interests groups—including business—were thought of as competing organizations operating apart from the policymaking process, putting pressure on it from outside (hence the name, “pressure group”). In contrast, it became clear both in the state-led economies, such as France, and in the highly unionized but trade dependent countries, such as the Netherlands, that this was not an accurate picture of the relationship between business groups and government. In these “neocorporatist” countries, hierarchically or-

ganized associations representing business and labor—encompassing more or less all potential members—enjoyed a monopoly on representing their interests in policymaking and also undertook a variety of functions in helping to pursue government policies and objectives (Streeck and Schmitter 1985). Admittedly, business organizations in the UK had a kind of “insider status” in which they enjoyed privileged access while policy was being developed. Only in special cases (e.g. the National Farmers’ Union in the UK from the 1940s to the 1960s) or for limited periods (e.g. during attempts to operate income policies in the UK) were interest groups, including business, in partnership with government to the degree taken for granted under neocorporatism or in the state-led economies such as Japan. In the neocorporatist countries, close partnerships between business organizations and government were the norm in both policymaking and policy implementation.

Why were some countries more neocorporatist than others? One answer lay in a continuous history of accepting the legitimate role of economic organizations, starting with mediaeval guilds, in regulating and shaping economic activity. From a different perspective, peak associations may also be traced back to party systems (i.e. multiparty vs. two-party systems) and political coalitions that fostered close relationships between public and private sector leaders (Martin and Swank 2011). Another perspective stresses the importance of finding a means of regulating union power in countries such as Sweden that combine high levels of union membership with dependence on exports (for power-resources approach, see Korpi 2006). Only such a bargain could prevent unions from destroying competitiveness through pushing for excessive wage increases. It can also be argued, however, that neocorporatism was promoted and defended by governments, not a natural phenomenon that occurred spontaneously. Unless governments foster the monopolistic structure of interest representation that constitutes neocorporatism, it will decay. In this perspective, neocorporatism is a strategy available to governments in a variety of countries.

Third, a widening knowledge base to include more countries also allowed for an ap-

preciation of differences in both ownership patterns and the lesser importance of markets and greater importance of other coordination mechanisms among capitalist countries. These differences had consequences for both everyday commercial life and relations with government. The publicly traded joint stock corporation is the dominant business organization in the USA and UK. In contrast, privately owned firms are of considerable importance in Germany. Similarly, relationships between firms in the USA and UK are based on market forces. Businesses will shift suppliers according to the best price that can be obtained. In contrast, in Japan, Korea or Germany, relations with suppliers are more permanent. If a supplier fails to deliver a component at a price and quality level that is satisfactory, a corporation has the responsibility to work with the supplier to improve its performance. Finally, corporations in the USA and UK raise money for investments primarily through the stock market selling stock to raise capital. In contrast, German firms have close relationships with a bank that will supply long term investment funds but will be represented on the board of the corporation.

These differences have been summarized by contrasting the Coordinated Market Economies (CMEs), such as Japan and Germany, with the Liberal Market Economies (LMEs), such as the USA and UK (Hall and Soskice 2001). In the CMEs, networks between firms and long-term relationships with a bank mitigate the impact of short-term market forces. One critical question is whether the CME structure allows for longer-term planning and investment strategies, whereas the market-driven LMEs witness greater pressures for short-term gains; in the LMEs, corporations that sacrifice short term profits and dividends in order to make long term investments would see their stock prices drop and, in consequence, their managers fired.

What of the role of the state? The Varieties of Capitalism (VoC) literature has surprisingly little to say on the role of the state (see Hancke, Rhodes and Thatcher 2007). While the existence of a CME might be based on deeper characteristics of the state, such as its legal code, the example of Germany shows that there is no necessary relationship

between a country having a CME and the state pursuing an activist role in close partnership with business. German federal governments have been less inclined to pursue interventionist economic policies than Japanese or French governments have done in the past. While France and Germany have been grouped under the heading of being CMEs, there are obvious differences. France has a large sector of government-owned firms; even after privatization, the French state continued to retain special stock, giving it continuing influence, and the links between French government and commercial elites continued. Similarly, LMEs also show great diversity. While both the UK and USA are placed in the same LME box, the UK has experimented with a variety of economic policies not found in the USA. These included extensive government ownership of industries (the 1940s to the 1980s) as well as attempts at indicative planning (the 1960s) and neocorporatist relationships between business, government, and organized labor (in the 1960s and 1970s).

It is generally agreed that American business executives display a consistently more negative attitude to explicit government involvement in business than do their counterparts in other countries. This attitude is reflected not only in opposition to industrial policies but also in strong antipathy to government regulation. American business executives see government involvement as interference, an illegitimate intrusion into their affairs. Business executives in other countries do not exhibit such antipathy. Vogel (1978) attempts to explain the contrast, basing his explanation on the distinctive history of the United States. Whereas in Europe or Japan, a strong state developed before the modern corporation, in the USA strong corporations (e.g. the railroad corporations) developed before the federal government had an extensive presence and power in the lives of its citizens. On the other hand, it can be argued that the federal government does play a more activist role in the economy than is generally realized through mechanisms such as defense contracting (funding the development of the military plane that ultimately was adapted into the Boeing 747), tax allowances, and research and development grants. The complexities of public policy in the USA are illustrated by the corporate tax, nominally

set at 35%, but which, in practice, is so replete with tax allowances (some of which are intended to foster industrial policy goals) that many corporations pay no tax at all. Moreover, American states typically lavish subsidies on corporations willing to locate in their territory; the foreign-owned automobile companies, such as BMW, Audi, and Toyota, that have built plants in the union-free states of the American south, for instance, have also benefitted from competition among them in the form of tax concessions, loans, and free land.

The transitions from Communism of Russia and China have produced forms of capitalism that do not fit easily into existing frameworks. After the demise of the Soviet Union, a small group, the oligarchs, often composed of former government or Party officials, were able to accumulate massive wealth through the control of privatized industries. However, President Putin demonstrated the power of the Russian state by imprisoning some of the oligarchs and demanding that multinationals such as BP sell Russian assets or subsidiaries to favored Russian enterprises (Goldman 2004). It takes a brave investor to move into Russia, as commercial success might be followed by expropriation or forced sale to a crony of the government.

The Chinese model of capitalism is still in flux and contains contradictory elements (see Breslin 2012). China has followed the classic Asian development model by fostering and protecting home grown industries through a combination of protection from competition, low interest loans, and the provision of infrastructure and buildings. The success of Chinese solar energy manufacturing is a well-known example. However, in vivid contrast to the Japanese model of development, the Chinese state encouraged multinationals such as General Motors to open plants and supply the domestic market. Finally, the prospects for state owned enterprises (SOEs) have fluctuated. It was long thought that the SOEs would fade into insignificance as they gradually shrank and the rest of the economy grew. However, the SOEs have proved to be very adaptive and become major players in, for example, the real estate market.

Are there any signs of convergence among the varieties of capitalism? It seemed plausible to assert there were in the period leading up to the global financial crisis. Liberal economic policies of divestment of government-owned businesses, de-regulation, and retreat from active industrial policies were in the ascendant. The proportion of publicly traded (as opposed to privately owned) companies was rising in Germany. There was widespread agreement that neocorporatism was in decline even in its heartland—Scandinavia and the Netherlands. While trends remain unclear and dependent on the outcome of some critical elections, it is fair to say that most of these trends have been arrested by the perception that liberal economic policies caused or, at the very least, facilitated the crisis. There has been a resurgence of industrial policy in countries such as Brazil and major attempts have been made to regulate the financial sector in the USA (Dodd-Frank) and Europe more effectively.

Mobilization

Lindblom, as we have noted, argued that politicians did not need to be pressured or bribed to act in the interests of business. Perhaps not surprisingly, therefore, a number of early studies of business and government in the United States found that business representation in Washington, DC was unimpressive in terms of both quantity and quality. The Owl of Minerva frequently flies in political science; just as Lindblom was finishing his influential book, the political world was shifting. Bryce Harlow, a Proctor and Gamble executive before entering the Nixon Administration, had warned that with the growth of regulatory agencies such as the Environmental Protection Agency (EPA), the “American free enterprise system was in danger of being rolled up and put in the trash can.” In slightly more measured tones, Lewis Powell, who was subsequently a moderate Supreme Court Justice, wrote the Powell Memorandum for the US Chamber of Commerce. In the memo entitled, “Attack on the American Free Enterprise System,” he warned that busi-

ness must become more active politically in the widest possible way. The threats were insidious. “The most disquieting voices joining the chorus of criticism [of business] came from perfectly respectable elements of society: the college campus, the pulpit, the media, the intellectual and literary journals, the arts and sciences and from politicians.” Business must be not only politically active but vigilant, scrutinizing text books and television for anti-business content and promoting sympathetic ideas through conservative think tanks.

What did American business do in response to these warnings? The short answer is “everything” (Vogel 1989). Business soon dominated the world of Political Action Committees (PACs), offshoots of corporations formed to funnel money to political campaigns under Federal Election Campaign legislation. Business lobbyists increased rapidly in number, dominating the Washington lobbying scene (Schlozman, Verba and Brady 2012). Two pro-business think tanks, the American Enterprise Institute (AEI) and the Heritage Foundation, became prominent features of the policymaking landscape. New business organizations were created (e.g. the Business Roundtable, which represents the very largest corporations) and old ones were rejuvenated and energized (e.g. the Chamber of Commerce). Trade associations such as the Chemistry Council (formerly the Chemical Manufacturers’ Association) drastically improved their game. The number of individual corporations with their own lobbyists in DC also increased dramatically. In 2008, in *Citizens United v. Federal Election Commission*, the Supreme Court legitimated unlimited spending by corporations from their general funds to support or oppose candidates in elections.

How much did this vast upsurge in business political activity matter? Wright (1989) has long argued that PAC contributions do not sway votes in elections. However, individual donations to campaigns bundled together by lobbyists had long produced a route for channeling much larger sums than PACs can give to politicians and business is by far the major interest represented in the Washington DC lobbying system. However, political scientists remain divided on the impact of money and resources in American politics.

While Schlozman, Verba and Brady (2012) express great concern about the dominance of interest group politics in the USA by business, Baumgartner et al. (2009) argue that we should not be concerned: in practice business is rarely united and most controversies in Washington pit coalitions of interest groups against each other. As a result, each coalition will typically contain some well financed business groups and some poorly resourced interest groups. Certainly business unity is no guarantee of success. Smith (2000) argues that it is precisely when business is most united that it is most likely to be defeated politically. An economist might suggest that profit maximizing corporations are unlikely to waste money on politics if it is unproductive or unimportant. Hard-headed business executives are unlikely to fund lobbying or campaign contributions if they do not believe that their money is well spent.

The obvious question is whether or not the dramatic growth of business political activity in the USA is *sui generis* or part of a global trend. It is hard to think of any national capitals in which there has been an equivalent explosion of business political activity. In most democracies, business had long been used to working in an environment in which it had adversaries such as powerful unions; the major changes in business representation in Washington perhaps reflected shock at the end of unparalleled freedom from criticism. Over time, conflicts between business and other interests or the state had become routinized and managed. In most countries, business-government relations are more institutionalized and less linked to partisan electoral politics. There are perhaps some analogies in the growth of contract lobbying in the UK and increased attention to Members of Parliament as well as to lobbying government departments. These positive trends were offset by a marked decline in the standing of business organizations such as Confederation of British Industries (CBI) during the prime ministership of Margaret Thatcher, a decline that was never completely reversed by subsequent governments. However, it is at the level of the European Union (EU) that an increase in the number of lobbyists comparable to that in the US is evident (Coen 1997). The dramatic growth in the number of business

lobbyists and organizations in Brussels reflects the emergence of the EU as the source of many policies of critical importance to business. The UK Department of the Environment has estimated that over three quarters of new environmental policy originates in Brussels, not Whitehall.

Globalization and Financialization

The global financial crisis of 2008 illustrated in shocking detail just how connected the world's economies and societies have become. The housing market bubble that eventually collapsed in the USA wreaked havoc on financial systems around the world in large part due to the high level of cross-border investment that began in the 1980s and accelerated through the 2000s (see Frieden 1991; Glyn 2006). In effect, these investments distributed around the world both the return and the risk derived from mortgage-backed securities and other complex financial products. As a result of this diffusion, when the bubble burst and these once profitable assets became "toxic," people across the global economy suffered. In the aftermath of these events, we also observed the role that government is asked to play when markets fail. As stock prices plummeted, attention turned to government bailouts for the banks, stimulus money for the economy, and new regulations for the financial sector. There was a sense that states needed to act in order to save markets. Keynesian economics had often been declared dead in the late twentieth century; Keynes's ghost must have been laughing as governments around the world adopted measures to counteract the Great Recession that he himself would have endorsed.

To what extent could the crisis have been averted? Gamble (2009) argues that the same irrational exuberance that drove speculation in the housing market can also be found in the lead up to past crises, from the dot-com bubble of the late-1990s to the stock market crash of 1929. In his view, the fact that history keeps repeating itself suggests that markets do not in fact "self-regulate" at least not without generating huge booms and busts. It

also suggests that government may not be up to the task of “smoothing out” the business cycle, either because public officials do not possess the expertise to identify bubbles when they occur, because they lack the political will to deflate them once they are discovered, or because they cannot control the vast scale of global financial dealings. Still, the crisis was not inevitable. As Morgan (2012) notes, deregulation of the financial sector in the 1980s and 1990s played a major role in enabling excessive risk-taking. With government oversight diminished, a huge amount of innovation took place. Financial products became increasingly complex and sophisticated while simultaneously exposing investors to greater, if unappreciated, risks.

Taking a wider view, there has been some question as to whether the globalization and financialization of markets has shifted the balance of power toward business and away from government. This question is ironic in a sense, as globalization is itself the product of government policies. While technological advances in transportation (e.g. containerized shipping) and telecommunications (e.g. the Internet) in the late twentieth century certainly made it easier to move goods and services across national borders, such innovation is neither a sufficient nor a necessary condition for the kind of international economic integration we find in the world today. In fact, as Berger (2006) reminds us, similarly high levels of international trade and capital mobility can also be found during the “first globalization” that occurred between 1870 and 1914. Interrupted by the destruction of two world wars, this first attempt at creating international markets demonstrates that, above all else, globalization requires peaceful relations among trading partners. Beyond this, states have played a critical role in fostering economic integration by removing barriers to trade and restrictions on capital movements. In addition, intergovernmental organizations, like the International Monetary Fund (IMF) and the World Trade Organization (WTO), have locked countries into lasting agreements, forging new interdependencies.

Why do states pursue these kinds of policies? First, trade and investment linkages may reduce the threat of conflict. Thus, at the end of World War II, efforts to liberal-

ize trade and investment were championed by the USA in part to create stability in the international system. Second, globalization raises living standards overall. Admittedly, liberalization also involves complicated trade-offs within countries. When trading partners agree to lower tariffs, for example, they open up foreign markets for exports while simultaneously exposing domestic markets to greater competition from abroad. The politics of trade liberalization therefore often involve contestation among domestic interests, as some firms and industries benefit from international competition more than others. In cases where particular firms or industries stand to gain (or lose) a great deal from liberalization, policymakers receive more (or less) pressure to form new agreements. In contrast, when the costs or benefits are spread out over a wider set of actors—possibly including consumers and communities as well as businesses—political mobilization is less likely to occur.

As economies have changed and evolved, so too has scholarship. As Schmidt (2008) describes, political economists' fascination with neocorporatism in the 1970s faded with the rise of neo-liberalism and a renewed interest in state-centered analyses in the 1980s. By the early 1990s, the state appeared to be in decline as the forces of globalization focused attention on the firm. More recently, Schmidt notes, the state has re-emerged as important actor, though labor has made less of a comeback. If these trends are any indication, the balance of power between business and government may have leveled off in recent years, despite the challenges imposed by globalization and mobilization.

Effectiveness of the Relationship

There is widespread agreement that government action through both intended and unintended consequences of public policy can play a crucial role in determining business success and failure.

Unfortunately for today's less developed economies, many of the tools that govern-

ments have used in the past to support domestic industries are now explicitly prohibited or severely restricted by international trade agreements and treaties. In the past, governments in the USA and Europe, for example, relied heavily upon the use of subsidies, tariffs, and quotas to protect domestic industries during the process of industrialization. Such protectionist policies helped to shield infant industries from foreign competition in the early stages of development, allowing them to reach economies of scale before entering world markets. Although these kinds of policies have been heavily criticized from the *laissez-faire* perspective, no country has made the transition from agrarian to industrial society without using some form of protectionism. That said, because protectionist policies often incite retaliation from trading partners, they are particularly risky for smaller economies or those oriented largely around exports. Thus, for small European countries like Denmark or Switzerland that are greatly exposed to world markets, industrialization required a somewhat different approach. As noted earlier, these countries developed a system of democratic corporatism, in which business, labor, and government officials acknowledged their shared fate and worked together to form industrial policy through continuous political bargaining (Katzenstein 1985).

More generally, countries always run the risk that policies justified as promoting infant industries or strategic interests will develop into rent seeking by business often in alliance with labor. Similarly, in other cases, government action has resulted in less beneficial outcomes. Proponents of dependency theory (e.g. Evans 1979), for instance, have argued that the need for capital in late-industrializing countries like Brazil engendered an unhealthy reliance upon foreign firms and governments. As Kohli (2009) argues, foreign investment in Latin America brought with it a host of constraints that prevented a more nationalist development program from emerging in these countries. This lack of autonomy translated into low growth rates, as governments struggled to diversify their largely commodities-oriented economies. Efforts to develop production capable of replacing foreign imports in domestic markets, i.e. import-substituting industrialization (ISI), also

met with mixed success in Latin America. In contrast, industrial policy in Asia has produced far more favorable results. As mentioned, Japan's postwar economic recovery was made possible in large part because of the trade and investment policies implemented by government bureaucrats in the Ministry of International Trade and Industry (MITI). As Johnson (1982) illustrated, these bureaucrats were deeply embedded in Japanese business conglomerates (known as "keiretsu"), and, as a result, they had both the knowledge and the influence required to design and implement an effective development program. Without these connections, it is doubtful that Japan's strategy of "picking winners and losers" would have been so successful.

Although some of the tactics employed in the past are no longer viable, it is remarkable just how much protectionism has survived in the current era of "free" trade. Large agricultural subsidies, for instance, remain in place in many of the advanced industrial economies. In other cases, what qualifies as protectionism depends upon one's point of view. While the USA claims that Chinese firms have underpriced their goods to gain advantage in foreign markets, for example, China argues that in fact it is America's "anti-dumping" policies that violate WTO agreements. Similarly, product standards implemented in the USA and Europe to protect the health and well-being of consumers have been viewed by developing countries as technical barriers to trade, imposed deliberately to keep out foreign goods. Do EU policies to ban GMOs or growth hormones protect the well being of European consumers or the incomes of European farmers? The incentive that governments have to protect local business has only increased in the wake of the financial crisis, as discussed below. With unemployment rates rising above 9% in 2009, for example, the US Congress attempted to insert a "Buy American" provision into its stimulus bill that would have required the government to purchase American-made steel and other supplies needed to repair its infrastructure. Although Congress ultimately softened the provision to conform with existing trade treaties, it illustrates the vitality of protectionist policies, especially in times of economic turmoil.

Beyond its trade and investment policies, government also influences business performance through regulation. While most agree that at least a modicum of regulation is needed to keep markets operating efficiently, the process of developing and implementing business regulation has grown increasingly contentious. Among the more advanced economies, there are frequent allegations that government regulation is excessive and inefficient, imposing unnecessary costs on business. In part, this sentiment can be traced back to the emergence of new protective regulations in the USA in the 1960s and 1970s—embodied in new government agencies like the Occupational Health and Safety Administration (OSHA) and the Environmental Protection Agency (EPA). As Bardach and Kagan (1982) have argued, the expansion of government rulemaking has caused friction at both the rule-level, where businesses object to the overall purpose of new regulations, and at the site-level, where individual firms are frustrated by what they see as legalistic implementation of broad rules that do not allow much site-specific flexibility. Although the cost of compliance has mobilized many firms to become more active politically, Bardach and Kagan note that regulation also generates positive feedback effects, as new regulation is proposed to “fill gaps” left from existing regulation.

Some claim that the increased reliance upon regulation, at least in some settings, marks the shift to an entirely new governing paradigm, that of the “regulatory state.” As Moran (2002) argues, the rise of the so-called regulatory state reflects both the state’s desire to exert control over business and its limitations in doing so. In cases like the USA and UK, for example, where the state rarely has a significant ownership position in firms, rulemaking and enforcement through courts and government agencies provides an important source of leverage over business. At the level of the European Union, such limitations are even more acute, not only because government ownership is out of the question, but because the “state” also lacks the budget and administrative resources to influence business activity through other means. However appealing government regulation may be in these contexts, though, it appears increasingly out of step with prevailing “neolib-

eral” ideas concerning the benefits of deregulation and privatization. Interestingly, as Levi-Faur (2005) points out, the shift from public to private authority that has occurred in many settings as a result of neoliberal reforms has not reduced the need for regulation; in fact, it has led to a proliferation of new rules. What has changed, rather, is the “division of labor” between public and private actors. Somewhat paradoxically, deregulation at the state-level has reinforced the need for regulation overall (what Levi-Faur refers to as “regulatory capitalism”). For example, the privatization of telecommunications is generally followed by an upsurge of regulation to deal with complicated issues such as connection rights and charges between carriers. In addition, as discussed in more detail below, the delegation of authority to private actors has also enhanced the position of nongovernmental and intergovernmental organizations, whose expertise becomes increasingly valuable in the creation of new standards.

Challenges and Prospects

The discussion so far suggests a number of challenges for both business and government in the years ahead.

First, as alluded to above, national governments are under significant external and internal pressures. The effects of the global financial crisis, for instance, are still being felt in many countries through high levels of unemployment and low rates of economic growth. The need for government spending, in the form of both bailouts and stimulus, has also taken a toll; sovereign debt is at record levels and still rising in many countries. Given this context, what can governments do to get their economies back on track? Are there still multiple paths to growth, or have these conditions forced governments to converge on a more narrow set of liberal economic policies?

While fiscal hardship and economic liberalization have limited the options available to policymakers, recent studies indicate that national varieties of capitalism remain re-

silient to some degree. Looking at the case of Germany, Deeg (2005) notes that while institutional reforms have liberalized the country's financial and corporate governance systems, core features of the German political economy, such as codetermination and vocational training, have remained largely intact. As a result, Deeg argues, German firms have become more competitive without Germany abandoning its commitment to social equality or long-term growth. Calmfors (2012) describes a similar situation in Sweden, where neocorporatist-style bargaining provided broad political consensus for liberal economic reforms in areas such as taxes, regulation, and spending. Such reforms helped make Sweden a "macroeconomic success" after decades of stagnant growth.

That said, some of the challenges facing governments are now only beginning to take shape. Among the advanced industrialized countries, for example, the loss of manufacturing jobs and the shift toward a more service-oriented economy represent significant structural changes with both short-term and long-term effects. In the short-term, unemployment and income inequality threaten to rise as large numbers of high paying manufacturing jobs disappear or are replaced by a smaller number of lower paying jobs in services. Dealing with these problems in the current economic environment involves difficult trade-offs for policymakers, as government programs used to maintain high levels of employment and earnings equality place additional claims on already scarce resources (Iversen and Wren 1998). The long-term consequences are harder to predict but potentially even more serious. Because workers are also consumers, countries with stagnant wage growth (e.g. the USA) face the prospect of reduced demand for goods and services. Though consumer debt has filled in for lost wages in recent years through what Crouch (2009) refers to as "privatized Keynesianism"—this kind of growth is unlikely to be sustainable in the long-term.

On top of the difficult trade-offs governments face at home, they also must work to solve problems that are increasingly international in scope. The need for global governance on climate change, for instance, is perhaps greater now than ever before. Problems

such as these are beyond the capacity of any single government to fix and therefore require a collective response. The result has been the gradual emergence and development of new transgovernmental networks that bring together relevant actors from a variety of countries to discuss and hopefully solve problems that spill across national borders (Slaughter Winter 2003). Whereas some of these networks are extremely well developed, such as the European Union, many others operate informally and continue to evolve over time. In either case, transnational governance networks reflect a world marked by more and newer forms of collaboration and coordination among different states.

Even with the addition of new transnational initiatives, however, there are still many areas in which governance has not kept pace with globalization. As Drahos and Braithwaite (2001) explain, the globalization of markets and of firms has often occurred without the globalization of regulation. This lack of global rules is not necessarily good for business. Companies that operate cross-nationally, for instance, may face high compliance costs as they deal with different—and potentially conflicting—national standards. Even in areas where national-level regulation is largely absent, companies must consider how their actions will be perceived by investors, consumers, and public interest organizations. Failing to do this can inflict lasting harm on brand reputation, as Nike found out in the 1990s when child labor and other abuses were discovered in its supply chain. In response to these concerns, companies have turned increasingly toward the use of voluntary self-regulation. Corporate participation in private regulatory schemes, for example, has helped mitigate social and environmental risks in the apparel and forest products industries, as well as in many others (Bartley 2003). Though critics charge that these programs amount to little more than public relations “greenwash,” others argue that self-regulation can, under the right conditions, lead to significant improvements in corporate performance. Potoski and Prakash (2005), for instance, have argued that voluntary certification schemes like ISO 14001 act as “green clubs,” incentivizing companies to make real changes in exchange for valuable reputational benefits.

Despite these shifts toward global governance and private regulation, national political and economic institutions remain significant determinants of business performance. First, the regulatory environment of large export destinations can have a direct effect on how companies behave upstream in the supply chain. When countries in Europe or North America, for example, adopt strict legal protections for collective labor rights, exporting countries have a strong incentive to ratchet up their own standards as well (Greenhill, Mosley and Prakash 2009). While international trade does force exporting countries to compete for foreign investment, this does not necessarily result in a “race to the bottom,” so long as trading partners maintain social and environmental protections at home. It is evident in some spheres that competitive pressures have produced policy change such as reductions in rates of corporate taxation or less stringent regulation of financial institutions. Why this has not happened in other policy spheres is a fascinating and under-explored question.

National-level institutions can also provide companies with an edge when it comes to international standard setting. As Bütthe and Mattli (2011) explain, firms that anticipate new rules can adjust their activities accordingly, gaining a “first-mover” advantage over their competitors. Whether or not this happens, they argue, depends on how well national-level standard setting organizations can steer negotiations on the global stage: hierarchical systems that culminate in one focal institution tend to be more effective than systems in which authority is decentralized and fragmented across a number of competing regulatory bodies. How interests are represented at the national level therefore has implications that extend beyond national borders.

We have recently witnessed yet another shift in the balance of power between states and business. As we have noted, a central concern in the 1990s was on the extent to which globalization and, to a lesser extent, political mobilization by business, had reduced the capacity of contending interests to challenge business interests or the nation state to regulate them. The enormously costly Great Recession that began in 2007 demon-

strated the incapacity of business to withstand the crisis without the support of national governments and central banks. The nationalization of automobile firms and the insurance company AIG by the supposedly free market Republican Bush administration in the USA demonstrate vividly the recovery of the state in relation to business. International organizations such as the EU were unable to confront the challenge. Only national governments and central banks (including the ECB) had the capacity to limit the damage financial irresponsibility had caused. The question remained whether the power of the nation state was limited to rescuing financial institutions from themselves through measures such as buying toxic assets or providing unlimited guarantees against the insolvency of firms that were “too big to fail” or whether the nation state had thereby regained the capacity to regulate and reform business. On this, the jury remains out and the balance of power between business and government will continue to remain both vital and changing.

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Explain how businesses try to influence government and the types of responses by businesses to their legal, social, and political environment. Since businesses are strongly affected by public policies, it is in their best interest to stay informed about public policies and to try to influence governmental decision making and public policy. There are different general ways that businesses view and act on their relationship with government. One perspective is for businesses to consider business and government on "two sides" and in opposition to each other. Some have argued that this was the prev