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Abstract and Keywords

This chapter explores the contributions of historical institutionalist scholarship to understanding preference formation in business. It critiques the analytical drift of the literature away from some conceptual sites of essential political action in democratic capitalism: issues of power, common trends across capitalist countries, and the role of voters in structuring the character of political conflict among interest groups and political parties. The chapter proposes a governance space, defined by the two dimensions of political salience and institutional formality, as a way to combine insights about the importance of institutional context with the structurally uneven allocation of power resources in capitalism.

Keywords: business, power, capitalism, historical institutionalism, salience

Lasswell defined politics as who gets what, when, and how. In studying the role of business in capitalism, historical institutionalist (HI) scholarship has made substantial strides in understanding the “what” and, especially, the “when” of politics; but it has been less attentive to the “how.” HI research has shed substantial light on the determinants of, and cross-national variation in, employer preferences over policy and institutions (the “what”). It has also underscored the role of temporal processes in politics, and the ways in which the strength of winning coalitions at times of institutional change gets built in to sticky institutions, which in turn influence the future preferences of employers and their political opponents (the “when”). These advances, however, pushed into the analytical background the “how” question foregrounded by an earlier generation of scholars of political economy: How does the concentration of economic power that occurs in capitalism translate into the political power of capitalists in democratic institutions, which are putatively built on the principle of one-person, one-vote?

This chapter explores the contributions of HI scholarship to understanding preference formation in business, which would be difficult to overstate, as they have substantially altered the field of political economy. Yet it also critiques the HI drift away from some of the conceptual sites of real political action in democratic capitalism: issues of power, common trends across capitalist countries, and the role of voters in structuring the character of political conflict among interest groups and political parties. Recent scholarship has tried to overcome these lacunae. Building on this work, I explore a framework for incorporating the HI concern with institutional context into an investigation of the evolution of business power in different issue areas.

(p. 454) Contributions of Historical Institutionalism

Historical institutionalist scholarship has transformed the way in which political scientists conceptualize the interests of business in politics. This dramatic change resulted from three related insights into the character of business preferences. The first was the recognition that the interests of business organizations in the advanced industrial countries are a product both of material economic characteristics and of past patterns of interaction with labor and the state. The theoretical awareness that employer preferences did not result solely from their structural economic position grew out of an empirical observation, which constituted the second major insight of this literature: business groups in different countries have in fact pursued different objectives with respect to economic policy. Employers do not always push for the rollback of state regulation and the weakening of trade unions. Finally, clarity about the political preferences of employer groups led to an important revisionist trend in highlighting the cross-class coalitions that lay behind many welfare state institutions.

Notable contributions from HI scholars showed that the preferences of organized business were products of historical developments of the state and of strategies of industrialization. Peter Katzenstein's edited volume *Between Power and Plenty* was an influential early statement. For Katzenstein, business preferences were not just a product of their struggles with labor, but also with the bureaucracy and political parties. Industrializing early and facing only a weak state and a weak political left, US business developed "hostility to all forms of business or state organization," while the late-industrializing Japanese business community developed a centralized structure as part of its close relationship to a state that guided economic development (1978, 325). Peter Hall (1986) similarly wrote about the decisive differences between the collective preferences of business in Britain, dominated by an internationally oriented financial sector, and a French business community in which banks and industry worked closely together. Katzenstein (1985) also traced the historical divergence in strategies of small European states between the international orientation and centralized organizational structure of the business community in liberal corporatist countries and the more domestically oriented business communities in social corporatist countries. In each of these contributions, the interests of business developed in interaction with the state and society, and these institutionalized compromises durably influenced the way in which employers collectively defined their interests.

The emphasis on the cross-country variation in business interests underscored that firms in some cases favored collectivist or government-led solutions, rather than intrinsically preferring market regulation. This led to a new appreciation of the different ways in which countries organized their internal economic policy and responded (p. 455) to shocks from the international economy.[1] While the literature on corporatism had already drawn attention to the extensive involvement of employers in systems of wage bargaining (Goldthorpe 1984), other work in this vein showed how employers were involved in different sets of relationships for procuring finance (Zysman 1983; Deeg 1999) or for providing local collective goods for smaller firms (Herrigel 1996). Indeed, the importance of organizations as meditators of internal divisions led to renewed attention to the organizational characteristics of business associations themselves and how this influenced their input into politics (Schmitter and Streeck 1999; Culpepper 2003, 2007).

No group of employers has been under the microscope of historical institutional scholarship more than those of Germany. Scholars working on the (West) German political economy observed that business associations were involved in intricate arrangements for delivering collective goods, notably in the area of vocational training, which underlay the strategy of diversified quality production (Streeck 1991). Such commitments gave German employers considerable motivation to work together with unions to support the institutions that underpinned collective good provision in this field, as well as in that of wage-setting. The efflorescence of interest in employers and vocational training in Germany (Culpepper and Finegold 1999; Culpepper 2003; Thelen 2004), managed to obscure an important difference in this literature over the interests of German employers. On the one side were those scholars, typically associated with the "varieties of capitalism" literature, for whom the incentives of German employers to support this set of institutional endowments were so powerful that any rational analysis would expect these firms to continue to support the institutions almost regardless of union strength (Hall and Soskice 2001). On the other side were those scholars who spoke of the "beneficial constraints" that ensnared German employers and gave them incentive to support collective institutions, but only so long as their relative political strength did not offer the possibility of exit from these institutions (Streeck 1997). I will return to this tension later in the chapter, as it now animates one of the new frontiers on which scholars are doing research to understand the interaction of employer preferences and contemporary capitalism.

The debate on German employers is part of the third key contribution of HI research on business: arguing for the importance of cross-class coalitions between employers and unions in building, or tearing down, modern arrangements of economic governance and welfare provision. Peter Swenson (1991) identified the key elements of the cross-class alliance model, in which differences between the interests of employers in the exposed and sheltered sectors led the former to fight for the centralization of industrial relations institutions.[2] Isabela Mares (2003) found cross-class alliances between employers and workers in the same sectors to account for major extensions of social policy in unemployment, old age, and disability provision in France and Germany. While this revisionist history of the welfare has provoked strong challenge from defenders of conventional class analysis in welfare state research (Hacker and Pierson 2002; Korpi 2006), the focus on cross-class alliances has proved one of the enduring insights of HI scholarship.

(p. 456) Shortcomings of Historical Institutionalism

HI placed employer interests, and the variation therein, at the forefront of political economy research. In so doing, however, the success of this scholarship shouldered aside other ways of thinking about capitalist politics, which would have consequences for the way that comparative and international political economy were studied. In this chapter I focus on three neglected phenomena: power, common trends in capitalism, and voters.

Perhaps no subject was more central to debates about political economy in the 1960s and 1970s than that of power: who has it, who does not, and how is it exercised in capitalist democracies (Dahl 1961; Bachrach and Baratz 1962; Lindblom 1977). The productive theoretical debate over the instrumental and structural power of business in advanced capitalism (Miliband 1969; Block 1980; Przeworski and Wallerstein 1986) ran into the stubborn objections of scholars whose empirical work showed that no matter what the odds, business was capable of losing political battles, and thus was simply one interest group among others (Vogel 1987; Smith 2000). Over time, HI scholarship became less concerned with the systematic advantages that accrue to business in capitalist democracies, and more concentrated on the complex determinants of how business came to want what it wants, and which coalitional partners it found. Kathleen Thelen, in her celebrated comparative inquiry into the politics of skill formation, concisely summarized this development in her own work, in which she acknowledged avoiding “the language of ‘power’ in favor of identifying the interests and coalitions on which institutions are founded [because], unlike power, actors and their interests are more tractable empirically” (2004, 32–33).

While such research has produced a rich catalogue of the determinants of employer’s political preferences and the coalitions they build in pursuit of them, it leads scholars to downplay what used to be the central question of political economists: does the commanding economic power of business in capitalism convert into an equally commanding role for capitalists in capitalist democracies? Research on business power, and the community power debate that preceded it (Schulze 1958; Dahl 1961), acknowledged that there was prima facie evidence to think business owners and the managers of large enterprises had privileged access to policymakers. The contrast with labor, which had to organize in order to have any political impact, was stark, and it was structural (Offe and Wiesenthal 1980). HI research is often attentive to the way in which institutional configurations favor the interests of one group over another, but its openness to contingency and the possibility of “institutional conversion” to a different set of interests (Thelen 2004; Streeck and Thelen 2005), disposes it to say less about the structural advantage of business in democratic capitalism.

Similarly, the focus of HI research on the cross-national variation in the interests of business associations led to a neglect of common trends within the different varieties (p. 457) of capitalism. A good deal of research during the 1990s asked the question, are models of capitalism converging, given the openness of international trade and financial flows? Heavily informed by the HI research program, much of that work came to the conclusion that, in fact, national models were robustly following their distinct, institutionally determined paths of adjustment (e.g., Berger and Dore 1996; Kitschelt et al. 1999; Hall and Soskice 2001). And indeed, a host of empirical indicators that scholars had used to measure degrees of coordination in industrial relations and finance showed that these institutions were remarkably resilient in many countries, and that beyond this resilience lay organized employers who favored institutional continuity (Golden, Wallerstein, and Lange 1999; Kenworthy 2001; Culpepper 2005).

Viewed through the lens of HI, the continued variation of institutions across the capitalist countries appears as evidence of the robustness of variety in capitalism itself. Yet some scholars who were themselves prominent contributors to the HI research program have in more recent years begun to focus on non-institutional outcomes, such as strike behavior or the character of collective contracts. They conclude from this evidence that the reorganization of capitalist activity is in fact moving in a single neoliberal direction, redistributing power from workers to employers, despite the vitality of different institutional forums for negotiating this transfer of power (Streeck 2009; Baccaro and Howell 2011).

A final critique of the HI research program's treatment of employers is that its great concentration on interest groups has brought with it an unfortunate inattention to voters. Prominent HI scholars Jacob Hacker and Paul Pierson have decried the fact that scholars of American politics build models with an almost exclusive attention to voters (2010). If this is a sin, it is one of which HI scholars are certainly innocent. Interest groups rule in the analysis of sources of institutional stability and change. Whereas early practitioners of HI blended the ways in which vote-seeking political parties and policy-seeking interest groups battled through different institutional forums, later work has tilted the balance decisively in favor of interest groups. This is consistent with the broader time frame often adopted in HI research, in which elections are merely episodic battles in the broad and ongoing conflict over policy and institution-building, often in non-legislative forums.

And yet this has meant that the mainstream of HI research has left unexploited two important determinants of institutional change: the preferences of the electorate (the core concern of most behavioral political scientists—e.g., Bartels 2008; Gilens 2012) and the dynamics of change in public opinion, which policy research has shown to play a dramatic role in determining when radical policy change takes place (Baumgartner and Jones 1993; Jones and Baumgartner 2005). Indeed, one of the most important findings of research on business power in politics is that business influence weakens when the electorate is interested in an issue and monitoring it, and that employers enjoy great success under these conditions only when a substantial portion of the public shares their views on particular issues (Smith 2000; Culpepper 2011).

(p. 458) Synthesis and Research Frontiers

Some of the most exciting current research on employers in politics involves work at the frontiers of these areas that past HI research has underemphasized. In each case, new avenues of inquiry combine insights associated with the HI research program and a return to the questions of power that animated previous generations of research on business and political economy.

One such strand focuses on the character of incremental and transformative change in institutions of the political economy, particularly in industrial relations systems. This work, led by Wolfgang Streeck's *Re-Forming Capitalism* (2009), maintains its institutionalist focus, but renews interest in institutions of advanced capitalism as a forum for ongoing conflict between labor and capital. If the varieties of capitalism literature emphasized the coordinating features of institutions, and other HI research illuminated the way in which institutionalization of conflicts permitted low-voltage politics (Katzenstein 1985), Streeck's research returns to the idea of capitalism as crisis-ridden and conflictual, characterized by sharp disagreements between the two parties to the wage bargain. Change and conflict, rather than stability and coordination, are the watchwords of this new strand of research.

Lucio Baccaro and Chris Howell (2011) have pursued this insight empirically with respect to the variable of power. They find that across different varieties of capitalism, empirical indicators all point to movement in a neoliberal direction. Although the institutions across these countries remain widely divergent, these movements have resulted in a concrete change in employer discretion over the rules governing workplace relations or negotiations with labor. That is, they have answered Thelen's call to make power an empirically tractable variable. And their conclusion is unsettling for HI:

> continuing divergence of institutional form is perfectly compatible with convergence in institutional functioning, which … raises questions about the centrality accorded institutions by scholars in the field of comparative political economy in explaining the functioning of capitalist political economies.
>
> (Thelen 2011: 527)

Not only can power be measured empirically, but the findings of these measurements show some potential to undermine insights generated by institutional variables, as exemplified by Baccaro and Howell's finding that employer discretion (which is a form of power in the workplace) is increasing in the presence of institutional stability. If the rules governing workplace negotiation—which are the centerpiece in many exhibits of capitalist variety—are themselves being undermined by actual practices that have increased employer power and weakened that of workers, it may well be the case that many cases of institutional stability mask substantial transfers of economic power over time.

(p. 459) Recent research has also returned to debates about the relationship between the instrumental and structural power of business. Instrumental power includes lobbying and campaign donations: the political instruments that business deploys in order to get its way. Structural power, by contrast, denotes influence that accrues to the firm solely by virtue of its position in the economy as an engine of economic activity, typically anticipated by policymakers and automatically built into policy. Attention to this distinction was first revived in an article by Jacob Hacker and Paul Pierson (2002), in which they challenged Peter Swenson's (2002) claim that American business was an active supporter of the American Social Security Act (SSA) in the 1930s. Hacker and

Pierson claimed that any support business showed for SSA was simply a strategic accommodation to its loss of *structural* power, because the Great Depression shifted social policymaking away from the states to the federal level, thus depriving business of its ability to exit one state for another. While business continued to enjoy access to policymakers through lobbying—*instrumental* power—this power was outweighed by the loss of *structural* power. Thus, the cross-class coalitions that Swenson had analyzed were, for Hacker and Pierson, merely a shotgun wedding, in which labor and the left were holding the shotgun.

Following the financial crisis and Great Recession, the question of business power is once again returning to the forefront of debates in political economy, a theoretical move made by several scholars associated with HI analysis. The various aspects of corporate governance law—long ignored by political scientists—have become the locus of some of the strongest debates about the character of the power of business in politics. Inspired by work on the varieties of capitalism, this research has gone from talking about cross-class coalitions in finance (Gourevitch and Shinn 2005) to asking questions about how left parties came to work with financial interests, and how these financial interests were able to exercise disproportionate sway in democratic politics (Cioffi and Höpner 2006). Others have looked at the politics leading up to and following the financial crisis, shifting emphasis from the institutional roots of political equilibria to the power resources of business and their exercise in politics (Hacker and Pierson 2010; Culpepper and Reinke 2014; Woll 2014). In each case, this research manifests a greater attention to the resources available to employers as actors in the political process.

Beyond renewing attention to business power, the insights of HI research would be improved through a greater dialogue with the policy agendas work of Frank Baumgartner and Bryan Jones on institutional change in public policy (Baumgartner and Jones 1993; Jones and Baumgartner 2005). In parallel to HI scholarship, this research program has found that policy subsystems are sticky, as the balance of power between vested interests is slow to change. Yet in the few places where they do find change, it is overwhelmingly of the radical, transformative nature, pushed by explosions of public interest in new policy areas. HI research has focused on gradual, transformative change (Streeck and Thelen 2005). Increased dialogue between these literatures could redound to the benefit of both. And from the HI perspective, it would provide a way to return a largely absent figure—the voter—to models of institutional change and stability.

(p. 460) In the remainder of the chapter I draw on some of my own recent work to suggest one way to push forward the research agenda on the role of employers in politics. This approach combines an institutionalist concern for the rules of the game in politics with an attentiveness to the political salience of different issue areas and how salience affects business power, returning the voting public to inquiry into political conflict between interest groups.

The Governance Space

As Theodore Lowi (1964) first pointed out, different policy regimes can create their own sort of politics. We should therefore expect power resources of different groups to vary in systematic ways across these regimes. What are the most important dimensions along which they vary? Culpepper (2011) prioritizes two dimensions of variation that define different regimes of governance. The first is political salience. Do voters on average care about issues and vote based on them? The second is the character of rules governing the regime: are institutions formal (i.e., the product of legislatures or public bureaucracies), or are they instead informal, meaning they are devised and maintained by non-state actors (such as employers' associations or labor unions)? One salutary product of the HI research program has been a renewed emphasis on the importance of moving the focus beyond the formal rules to those informal rules that structure political and policy conflict (Helmke and Levitsky 2004; Culpepper 2005).

Table 27.1 The Governance Space

	Informal Rules Primary	**Formal Rules Primary**
High Salience	Social partner bargaining	Partisan contestation
Low Salience	Private interest governance	Bureaucratic network negotiation

Source: Culpepper (2011): 181. Table reprinted with permission of Cambridge University Press.

Table 27.1 depicts the intersection of these two dimensions and the sort of politics to which they characteristically give rise. In the quadrant entitled partisan contestation, rulemaking is primarily formal and voters are highly interested in the outcomes. Tax reform, for example, generally lies in this quadrant: parties compete on their positions over tax policy to attract voters, who are paying attention to this pocketbook issue. In such a domain, business needs allies in order to convince broad swathes of public opinion, because the parties that have to pass policies also want to get re-elected. It is in such policy areas that business has endured many defeats, despite its formidable lobbying capacity (Smith 2000).[3] Much of the rulemaking in capitalist democracies happens in the other quadrants however, and these other quadrants of the governance space privilege different political resources.

(p. 461) It is in the quadrant furthest from partisan contestation—labeled private interest governance in Table 27.1—in which we expect business power to be disproportionately high. These are issues in which the voting public evinces little sustained interest, and in which rulemaking is primarily private. In areas such as corporate governance regulation, non-legislative codes of conduct established by experts are often endorsed by government without being codified, reinforcing deference to business. Keeping the rules out of the legislative and regulatory domains means that business can rely less on its lobbying capacity, except to convince government not to intervene in a policy area. These are conditions in which business domination is the rule, partly because of the absence of partisan political incentives to bring the preferences of large portions of the voting public into policymaking.

The other two quadrants of the governance space stand midway between the two poles of private interest governance and partisan contestation. Bureaucratic network negotiation denotes rulemaking involving state actors, but the lack of public attention suggests that political parties and legislatures are unlikely to be relevant players. Because rules are formal in policies governed in this quadrant, business cannot simply impose its will; influence must be exercised through networks established around regulators, where expertise is the coin of the realm, and where civil servants have some discretion about which interests to include.

The opposing quadrant, that of high salience and informal rules, is dominated by social partner bargaining under the shadow of the state (Scharpf 1997). The public is paying attention, but governments either hesitate to enter this area because of delicately constructed private governance systems, or (as in the case of German wage bargaining), because they are constitutionally prevented from doing so. The ability to create economic or political dislocation constitutes the most effective form of resources here (Culpepper and Regan 2014). Strikes or lockouts betoken economic power, which is useful in informal governance, and the ability to raise public awareness in by bringing large number of protesters into the streets can lengthen of the shadow of the state over private bargaining. Typically the political actors in this quadrant are employers' associations and trade unions, but in principle they can be any associations representing a functionally defined interest group in the economy.

For expository purposes, this discussion has associated policies with a single quadrant, which is sometimes the case. But in the real world, a single policy area may involve contestation in different quadrants of the governance space. Consistent with the broad thrust of HI scholarship, this sort of context matters, and the actors know it. Sometimes they try to move contestation from one area in which their resources are weaker to another, in which their resources are stronger; other times the shift may happen for reasons that are contingent, such as a sudden scandal catching public attention and transforming an area from low salience to high salience. These sorts of shifts can lead to sudden institutional changes, as the balance of power among actors flows from significant changes in the two underlying dimensions of salience and institutional formality.

The governance space illuminates how the political power of business organizations rises and falls depending on the involvement of the public. Take for example the issue (p. 462) of executive compensation, whose recent rise to high salience across the world's rich countries has led to dramatic new forms of regulation of what was previously a privately governed issue: how much public companies can pay their CEOs. In research on these policies in Britain and the United States, I have shown that if voters are not paying attention to an issue of great concern to business leaders, then business leaders will almost always get their way.[4] And getting their way means having no constraints on the prerogatives of boards of directors as to how they set pay.

Rising political salience is not a sufficient condition to lead to institutional change, however. It must be transformed into political effect through interest group or political party action. In regulating executive pay, a government of the right may be able to limit the effect of public outrage on legislative output, as happened in the United Kingdom in 1995. Even a partisan change in government in 1997 was not enough to effect institutional change in this area, given the deference of the Labour government to organized business as the salience of the issue was in decline after the election. It required interest group action on the part of institutional investors and sustained high salience with the public to convince the left government to adopt formal laws governing executive pay-setting in Britain in 2002.

Similar dynamics were observed in the passage of initial restrictions related to executive compensation in the Sarbanes-Oxley bill in the US in 2002, in the wake of the Enron scandal, and then later with the outbreak of the financial crisis in the US in 2008. In each case, public attention shifted the balance of power between business and other actors by concentrating the attention of politicians on what voters wanted. Business does not always lose in high salience environments, when voters are paying attention and have clear preferences, but it will lose if it does not have strong allies in government or the interest group environment. In noisy political conflicts, the lobbying tools of "quiet politics" are generally insufficient to convert business preferences into public policy.

Conclusion

The challenge of future research on employers is to build on the insights of HI scholarship on the construction of business preferences while reinforcing attention to the "how" of Lasswell's politics: what are the mechanisms of employer power in the advanced capitalist democracies? How do democratic institutions and decision-making rules interact with the concentration of economic power that is inherent in capitalist development?

Exciting avenues of current inquiry build on HI insights while placing business power closer to the center of analysis. There remains much to be done in thinking about the most appropriate ways to conceptualize this political influence. Some have used the contrast between instrumental and structural power to theorize how business power varies over time (Hacker and Pierson 2002). Other scholars have pushed to broaden intellectual inquiry away from power directly exercised on actors to diffuse relations of power, in which modes of discourse allow some outcomes to be chosen and not others, (p. 463) thus depriving social actors of autonomy (Barnett and Duvall 2005). As Thelen (1999) has observed, this is a familiar tension from HI research, between those who focus primarily on material roots of political change (Swenson 1991) and those who look more at its ideational roots (Katzenstein 1985).

The governance space, which I have briefly discussed in this chapter, is one analytical approach that combines the insights of HI analysis with a concern for business power and the role of the voters in setting political agendas. There are surely others that merit further elaboration and scrutiny. The way for political economy to build on the edifice to which HI research has contributed substantially over the past 30 years is to continue to think about the mechanisms that link democratic decision-making and the uneven distribution of economic power in capitalism. These vary over time and across policy areas, but there are features that hold true across different varieties of capitalism. There is still much to be learned about the extent and limits of the political power of business.

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Notes:

(1.) These claims were already foreshadowed in Shonfield (1965).

(2.) Pontusson and Swenson (1996) showed in later work that the cross-class coalition was also the causal force in decentralizing wage bargaining in Sweden.

(3.) Indeed, the governance space helps make sense of the puzzling finding of research by Baumgartner et al. (2009), that expenditures on lobbying do not seem to be correlated with policy success.

(4.) The following paragraphs draw on findings from Culpepper (2014).

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