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Bringing power back in: A review of the literature on the role of business in welfare state politics

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Bringing Power Back In

A Review of the Literature on the Role
of Business in Welfare State Politics

Thomas Paster



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Abstract

What is the impact of business interest groups on the formulation of public social policies? This paper reviews the literature in political science, history, and sociology on this question. It identifies two strands: one analyzes the political power and influence of business, the other the preferences and interests of business. Since the 1990s, researchers have shifted their attention from questions of power to questions of preferences. While this shift has produced important insights into the sources of the policy preferences of business, it came with a neglect of issues of power. This paper takes a first step towards re-integrating a power-analytical perspective into the study of the role of business in welfare state politics. It shows how a focus on variation in business power can help to explain both why business interest groups accepted social protection during some periods in the past and why they have become increasingly assertive and averse to social policies since the 1970s.

Zusammenfassung

Wie beeinflussen Unternehmensverbände die Gestaltung staatlicher Sozialpolitik? Dieses Papier bietet einen Überblick über die politikwissenschaftliche, geschichtswissenschaftliche und soziologische Forschungsliteratur zu diesem Themenfeld. Es identifiziert zwei Forschungsstränge: Einer befasst sich mit politischer Macht und Einflussnahme von Unternehmen und der andere mit deren sozialpolitischen Interessen und Präferenzen. Seit den 1990er-Jahren verlagert sich der Schwerpunkt der Forschung vom ersten zum zweiten Strang. Diese Verlagerung brachte wichtige neue Einsichten in die sozialpolitischen Präferenzen von Unternehmen, führte jedoch zu einer Vernachlässigung von Fragen nach Ursachen und Stärke des politischen Einflusses von Unternehmen. Der Bericht versucht, die machtanalytische Perspektive in die Untersuchung der Ausgangsfrage – wie Unternehmensinteressen Sozialpolitik beeinflussen – zu reintegrieren. Durch diesen Blick auf die verschiedenen Ausprägungen politischen Einflusses kann erklärt werden, warum Unternehmensverbände sozialpolitische Reformen in bestimmten Perioden akzeptierten, jedoch seit den 1970er-Jahren staatlicher Sozialpolitik zunehmend kritisch gegenüberstehen.

Contents

1	Introduction	1
2	The scope and limits of business power	4
2.1	The sources of variation in business power	7
3	The social policy preferences of business	9
3.1	The power resource approach and employer preferences	10
3.2	Sectoral variation in preferences	11
3.2.1	Skills	12
3.2.2	Firm size	14
3.2.3	The international economy	15
3.3	Organizational structures and preferences	16
3.4	Political constraints and strategic preferences	17
3.4.1	The New Deal social policy reforms: Genuine and strategic preferences	18
3.5	Adaptation and preference change: Reconciliation or radicalization?	21
4	How the study of power can move forward research on business and the welfare state	23
	References	28

Bringing Power Back In: A Review of the Literature on the Role of Business in Welfare State Politics

1 Introduction

How have business interest groups influenced the adoption, expansion, and more recent retrenchment and restructuring of welfare state programs? To what extent and under what conditions do they constrain or enable the adoption and continuation of different types of social programs? While business interest groups have traditionally received relatively little attention in welfare state research, since the 1980s we have witnessed a new awareness among researchers of how business interest groups shape social policies and industrial relations. However, these studies are very heterogeneous in terms of questions, research methods, and theoretical perspectives. While most agree that business interest groups are powerful not only in the economic but also in the political sphere, scholars have very different views about the nature and extent of their influence on politics, as well as what their interests and preferences are.¹

To simplify greatly, studies relevant to our understanding of the role of business and welfare state politics can be grouped into two broad strands: one dealing with *power*, and one dealing with *preferences*. The first strand investigates the sources and mechanisms of business power; that is, the capacity of business interest groups to affect political choices.² The second strand investigates the policy preferences of various business segments and groups; that is, their perceptions of what policies best serve their interests.

The first strand goes back to debates in the 1970s about the role of business influence in politics, which were fuelled by contributions from scholars as diverse as the pluralist dissenter Charles Lindblom (1977), the neo-Marxists Ralph Miliband ([1969]1973)

This paper has benefited greatly from comments by Annette van den Berg, Dorothee Bohle, Francesco Boldizzoni, Béla Greskovits, Daniel P. Kinderman, Marco Hauptmeier, Martin Höpner, Mike McCarthy, Jamee Moudud, Marek Naczyk, Dennie Oude Nijhuis, Neil Rollings, and J. Timo Weishaupt.

- 1 The terms “interest” and “preferences” are often used interchangeably to describe the goals actors pursue, whereby those who believe that these goals are rooted in objective material positions often prefer to speak of “interests,” while those who believe in the subjective nature of these goals tend to prefer the term “preferences.” In this paper I stick to the term “preferences,” but agnostically, without implying any commitment to a particular theoretical perspective regarding the sources of these preferences. Münnich (2011a) offers a theoretical discussion of the concept of interests. I use the term “business interest groups” to refer to actors representing business in politics.
- 2 The theorization of the concept of power has a long tradition in political theory. One important insight regards the different dimensions of power. Bachrach and Baratz have argued that power consists not only of the capacity to affect decisions, but also the capacity to prevent issues or options from being considered by other actors (Bachrach/Baratz 1962: 947–952). To this, Lukes added a third dimension, the capacity to affect the preferences of others (Lukes 1977: 27).

and Nicos Poulantzas (1969), and the Chicago school economist George Stigler (1971). In contrast to the standard pluralist view that prevailed at that time, Lindblom argued that business plays a uniquely privileged role in politics, one that is unrivaled by that of any other social group, and that its power derives from the dependence of the state on investments by private firms and the need therefore to maintain business “confidence” (Lindblom 1977: 172–179). I refer to this view as the *structural dependence thesis*.³ Notably, this position can be found among Marxists, such as Poulantzas, and non-Marxists, such as Lindblom, alike.

Theories of regulatory capture also highlighted the dominance of business in politics. Nobel laureate George Stigler,⁴ for instance, argued that market regulations by the state often resulted from regulatory capture by individual firms or industries rather than from the pursuit of a public good. Somewhat ironically, perhaps, while he came from a theoretical vantage point very different from that of the structural dependence theorists, he thus arrived at the identical conclusion that the state is a tool of business power (Stigler 1971).

From the 1980s on, the attention of researchers shifted from questions of power to questions of preferences. Researchers now began to take an interest in the *policy preferences* of various types of business. This strand of research received an important stimulus from debates inspired by the “Varieties of Capitalism” (VoC) approach that dealt with the relationship of firms’ production strategies to their political-economic institutional environment (Hall/Soskice 2001; Albert 1991).

Scholars inspired by the VoC approach shifted our attention from the role of business interest associations as agents of political influence to their role as agents of inter-firm coordination (Culpepper 2002; Hancké 2010: 135–136; Iversen/Soskice 2009; Iversen/Soskice 2010; Manow 2001a, 2001c; Martin/Swank 2012; Swank/Martin 2001; Thelen/Kume 2006; Thelen 2014; Martin 2015),⁵ and, by doing so, produced important insights into the origins of inter-firm coordination and its effects on a range of socio-economic outcomes, such as wage inequality, skill profiles, and product market specialization.

The VoC framework also fuelled debates about the social policy preferences of employers, as it suggests that some firms in coordinated market economies will benefit from public social policies. A new strand of research on the social policy preferences of employers investigated questions such as: is business universally hostile to social protection or do some firms support some forms of social protection? What are the sources of business support and opposition to various forms of social protection? As I show in this

3 Some use the term “business confidence thesis” instead.

4 George Stigler was a student of Frank Knight and Milton Friedman and a member of the Mont Pellerin Society.

5 Some VoC scholars combine a focus on coordination with a focus on power, notably Kathleen Thelen (2002). Yet, in most VoC scholarship business power plays a marginal role.

paper (Section 3), this research agenda has produced a rich body of research that provides us with important insights about the considerations that shape the social policy preferences of business.

But the turn to the study of preferences has also contributed to the analytical neglect of questions of power. Studies that attribute social policy choices to business preferences imply that business has power. However, they often fail to investigate empirically the extent and mechanisms of business power and influence in politics. They often tend to take for granted that policy choices result from the preferences they identify. As a result, we know little about the extent and mechanisms of business influence in social policy-making, and the extent to which the characteristics of social programs actually reflect business influence.

This state of affairs results from the separation of power-centered and preference-centered research. Power-centered and preference-centered research have developed largely in isolation, without much interaction. Most work on business power deals with the relations between business and politics in general, rather than with the relations between business and politics in the field of social policy (see Section 2). At the same time, work on business and the welfare state deals mostly with issues of preferences, rather than power (see Section 3). As a result, there is little research on how influential business interest groups are in welfare state politics.

In this paper I suggest that an integration of business power in the study of welfare state politics can help us to advance debates about the role of business in welfare state politics. Studies of the social policy preferences of business interest groups often take an agnostic view on the question of power, as I show in Section 3, assuming, rather than showing, that the identified preferences shape policy choices. This is problematic in particular because, as Section 2.1 shows, recent studies of the role of business influence in other policy fields show great variation in the ability of business to get what it wants. Business prevails sometimes, but not always.

The following two sections review some of the literature on business power (2) and preferences (3). The range of literatures and research fields that could in principle be included in such a review is vast. To make this literature review manageable, however, I decided to rely on a narrow definition of business as a political actor. I use the term “business” as shorthand for business interest groups; that is, organizations that represent parts or all of the business community in politics. Business interest groups operate at various levels, including the local, sectoral, national, European, and global levels. Most of the literature, however, focuses on the national level and thus I decided to limit my review to that. While we know that transnational business groups and transnational corporations exercise considerable influence on politics at the European and the global level (Dür/Bernhagen/Marshall 2015; Sklair 2001: 2–3, 2012, 2002; Farnsworth 2005a, 2005b; Rasmussen 2014; Woll 2006a), research about their involvement in social policy-making is still rather limited. I elaborate on my definition of social policy at the beginning of Section 3.

2 The scope and limits of business power

The study of business power has a long pedigree, often fuelled by a perception that this power is disproportionate or at odds with democracy. Marx and Engels famously declared in the *Communist Manifesto* that “[t]he power of the modern state is merely a device for administering the common affairs of the whole bourgeois class” (Marx/Engels [1848]1971: 486). Louis Brandeis, later a US Supreme Court Justice, denounced the concentration of power in the hands of big corporations as early as 1913 ([1913]2009). However, despite the apparent pervasiveness in public discourse of the view that business dominates politics, interest on the part of the social sciences in the study of business power has fluctuated greatly. This section reviews some of the main insights from studies of business power, as well as the theoretical and empirical problems that impede our understanding of business power.

During the post-war period, interest in the role of business power stemmed from debates between pluralists and Marxists on the nature of capitalist democracy: do capitalist democracies live up to the pluralist ideal of fair competition among a large number of interest groups or are they controlled by a single, cohesive elite? Much of this debate took place in the United States. In the 1950s, the sociologist C. Wright Mills argued that a coherent power elite with a shared worldview governed the United States (Mills [1956]1997). According to Mills, corporate leaders are part of that power elite, closely tied to political and military elites through social background, education, and networks.

Inspired by Mills, Domhoff attempts to demonstrate through in-depth archival research that corporate elites dominate American political life. His research covers a large range of policy fields and periods, including the New Deal period (Domhoff/Webber 2011; Domhoff 1996, 1990) and subsequent administrations (Domhoff 2013). Domhoff argues strongly that in the United States, business elites dominate and control policymaking and that no erosion of business power occurred during the New Deal and post-war period, as others have argued (for example, Hacker/Pierson 2010). His interpretation of the historical record has not remained undisputed, however, for reasons discussed below (Section 3.4).

Another strand inspired by social elite theory investigates the impact of interlocking directorates on the political behavior of business elites. Useem’s *The Inner Circle* analyzes how interlocking directorates in the United Kingdom and the United States provide an organizational basis for a small group of company directors to unify the wider business community and make it focus on the collective interests of business, rather than on the narrow interests of their individual firms (Useem 1984). Mizruchi analyzes the impact of interlocking directorates in the United States on business campaign contributions and on testimony before Congress. He finds that some of these ties lead to similar political behavior, controlling for other factors expected to shape interests, such as indus-

try (Mizruchi 1989, 1992). Similarly, studies by Burris (2005), Clawson and Neustadl (1989), and Dreiling and Darves (2011) find that interlocking directorates strengthen political cohesion within the business community.

For Germany, Windolf and Beyer found that the peak business federations recruit their leadership personnel largely from a network of multiple-directors among the largest firms (Windolf/Beyer 1996: 225). Similarly, Goerres and Höpner find that interlocked firms in Germany are more likely to donate to political parties (Goerres/Höpner 2014). At the same time, since the 1990s these inter-locked directorships have eroded in Germany, as Beyer and Höpner have shown (Beyer/Höpner 2003: 195–196), which raises questions about what form political networks will take within the business community in the future. In short, these findings all point to the role of inter-personal networks in shaping political activities, although they do not directly address questions of power.

From the 1970s on, some political scientists and sociologists began to pay increased attention to the specifically *structural* sources of business power, as distinct from *instrumental* power, that is, power derived from political activities, such as lobbying and the financial resources devoted to them. Arguments about a structural dominance of business in politics during that period were framed as a criticism of the then prevailing pluralist model of politics. The most elaborate formulations of this thesis came from the political scientists Lindblom (1977: 172–179) and Dahl (1976: xxxvi), and the political sociologists Poulantzas (1978a) and Block (1977, 1987: 3–22).

The main insight produced by this strand of literature is a theoretically more sophisticated understanding of the nature of business power that centers on the notion of a *structural dependence* of the state on business. According to the structural dependence thesis (Lindblom 1977; Block 1977; Poulantzas 1969: 73), the power of business stems from the dependence of state and society on economic performance, which is seen as a function of investment decisions by individual firms. Governments' re-election chances and tax revenues depend on economic performance. To induce investments, governments need to adopt business-friendly policies. Firms will reduce investments or move elsewhere if a government adopts anti-business policies. As governments are aware of their dependence, they will not only refrain from adopting policies that are against the interests of business, but pro-actively seek the counsel of business groups to find out what's most likely to promote investments.

While the structural dependence thesis is theoretically compelling, it has not gone unchallenged. Theories of state autonomy, developed from the 1980s on, highlighted governments' room to maneuver and the variability in business dominance (Mann 1984, 2012: 14–15; Skocpol 1980; Skocpol 1992: 26–30). At the same time, pluralists such as David Vogel pointed to the variability of business influence based on qualitative studies of policy-making in several fields in the United States (Vogel 1983, 1987, 1996a).

Evidence from studies that tested the structural dependence thesis head-on is mixed. Quinn and Shapiro (1991) tested the impact of several mechanisms of business power on changes in corporate tax rates in the United States, using regression analysis. They found that the extent of electoral financing by business did correlate with tax cuts, but variables intended to measure structural power, such as declines in investment, did not. Swank (1992) analyzed the responsiveness of corporate tax policies to changes in investment using time-series data for 16 affluent democracies and found that low rates of investment spur corporate tax cuts. The magnitude of the effect found is small, but stronger during periods of economic crisis. Przeworski and Wallerstein tried to show through formal modeling that private investment is compatible with any distribution of consumption between capital and labor (1982, 1988).

Overall, the structural power debate has not inspired empirical work in the field of welfare state research as much as one might expect. Much of the work that engages with this thesis either deals with other policy fields (for example, Vogel 1983; Pontusson 1992) or remains at the level of theory development (Marsh 1983; Barry 2002, 2003; Dowding 1996, 2003).

Two aspects of the structural dependence thesis foster this scarcity of research; I call them the *no agency* and the *no variation* arguments. The first issue regards the absence of agency. Policy-makers will try to anticipate what business needs because they are aware of their dependence on investment. There is, therefore, an “unspoken deference ... to the needs of business” (Lindblom 1977: 179). The state serves capitalist interests “regardless of whether capitalists intervene directly” (Block 1977: 12). While this may be true, the assumption in this account that business power is structural means there is no obvious object for empirical investigation. The second issue concerns the view that business power is intrinsic to capitalism and thus constant. Consistent with this view, the early theoretical work on business power in the 1970s, discussed earlier, paid little attention to variation in business power. Taken together, these two theoretical commitments impede empirical investigation. Forces that do not require agency and do not vary are clearly difficult to research. As a result, the debates about business power in the 1970s ended effectively because they were exhausted, and not because the theoretical questions they asked would have been resolved.⁶

6 Block and Piven (2010: 207) attribute political scientists’ turn away from the study of business power partially to a misplaced emphasis on methodological rigor. While I agree that methodological trends are partly responsible for the turn away from the study of business, I argue here that the way arguments about business power were framed in the literature of the 1970s made them unamenable to sound empirical testing. In other words, the problem stems not only from methodology but also from theory. As I show in the following section, more recent research has found ways of avoiding the “no agency” and “no variation” problems.

More recently, however, we see the emergence of a new strand of research on business power that breaks with these two views and tackles directly issues of variation in business power, without, however, abandoning attention to the structural sources of business power. The next section turns to this strand.

2.1 The sources of variation in business power

The assumption of invariance of business power implied in early versions of the structural dependence thesis contrasts with more recent research that documents great variation in the capacity of business to get what it wants. In welfare state research, the balance of power perspective of the power resource approach implies variation in business power to mirror variations in labor power; a strengthening of labor power implies a weakening of business power. However, labor mobilization is not the only, and possibly not the most important, factor affecting the ability of business to prevail. In the following, I discuss some of the variables affecting business power that more recent strands of research about business-government relations identify.

Global capital mobility is perhaps most often identified as one cause of the increasing power of business, in particular of those segments that are mobile, such as big multinational corporations and transnational investment funds (for example, Crouch 2011; Fuchs 2007). Capital mobility increased greatly as a result of the deregulation of capital markets across the OECD world in the 1970s and 1980s. It enhances the exit options of firms and investors and thereby requires nation states to become competitors for investments, thus requiring them to give priority to competitiveness. The constraining effects of global capital mobility on national policy autonomy are at the center of a large literature, which is characterized by a controversy between those that highlight these constraints (for example, Strange 1996), and those that doubt their severity (for example, Hirst/Thompson 1999; Garrett 1998).

While arguments about how globalization constrains the nation state imply a strengthening of the structural power of business, the precise mechanisms of business power have received little attention in the literature on globalization, which tends to look mainly at structural features of the economy, rather than at the specific activities of business interest groups or their involvement in policy formulation. Those studies that have looked at government-business relations in the context of globalization tend to find a strengthening of business power, however. For the United Kingdom, Farnsworth finds that globalization has strengthened the influence of business in social policy-making (Farnsworth 2004: 175–178; Farnsworth/Holden 2006: 474–475). Similarly, Wilks identifies an increase in business power in the United Kingdom since 1990, in particular in the areas of public service delivery and corporate governance rules, and links this increase to globalization (Wilks 2013: 261).

The *state of the economy* is another factor that has been shown to affect business power. David Vogel (1989: 6–7, 290, 1996b: 318) has studied the impact of business groups on environmental policy and consumer protection in the United States from the 1960s to the mid-1980s. He finds that the influence of business correlates with perceptions of economic crisis. Political receptiveness to demands from business groups increases when the public perceives the economic prospects as weak: during periods of economic crisis concerns about the possible negative effects of state intervention on investment are strongest; during periods of rising prosperity, in contrast, social and environmental issues have a greater chance of gaining policy-makers' attention (Vogel 1989: 290).

Political institutions also affect the power of business. Hacker and Pierson (Hacker/Pierson 2002) analyze the role of business in the adoption of the Social Security Act in the United States in 1935 (I discuss the New Deal social policy reforms in more detail in Section 3.4.1). They argue that the credibility of threats of capital flight eroded after a shift of policy-making activity from the state to the federal level (2002: 297). The loss of credible exit options eroded the power resources of business. According to these authors, the structural power of business is thus greatest in decentralized federal systems (2002: 282). Campaign finance rules are another important factor that affect business influence: Kuhner (2014) shows how decisions by the US Supreme Court have strengthened business influence by easing restrictions on corporate donations.

A further important dimension of variation is *political salience*. Culpepper (2011) has argued that the political power of business varies with the extent to which the public cares about a policy issue. Based on an analysis of corporate governance reforms in France, the Netherlands, Germany, and Japan, he argues that policy-makers head the interventions by business on issues that the public does not care about, but when the public does care, policy-makers tend not to defer to business. In short, “business power goes down as political salience goes up” (2011: 177). Similarly, Rasmussen finds – based on process tracing of four legislative dossiers – that business lobbying at the European Parliament is more effective when salience is low (Rasmussen 2014). These findings chime with those of Smith, who found that in the United States business often loses political battles unless it has public opinion on its side (Smith 2000). In contrast, Klüver found that the impact of salience on lobbying success in the European Union can be positive or negative, depending on the size of a lobbying coalition (Klüver 2011: 7).

Another determinant of business power concerns the *credibility of disinvestment threats* by business. Structural dependence does not automatically lead to business-friendly policies, only if threats of disinvestment are perceived as credible by policy-makers. Studies using a rational-choice perspective try to capture this issue through the concept of information asymmetries. In a study of business lobbying on environmental and banking regulation in the United Kingdom and Germany, Bernhagen showed how business groups rely on privately held information about the costs of policy choices to influence policy-makers. Control of access to such information is an important power resource of business (Bernhagen 2007: 20; Bernhagen/Bräuninger 2005; see also Klüver 2012).

Studies using an ideationalist approach focus on persuasion and the capacity of business to shape other actors' *beliefs* about the effects of policy choices on investments. Bell and Hindmoor (2014) analyzed the role of ideational mechanisms through a case study of mining tax reforms in Australia. In 1987 the Australian government managed to adopt a new mining tax despite massive resistance from the industry. The tax turned out to have "no appreciable impact on investment levels" (Bell/Hindmoor 2014: 477). A similar government reform initiative in 2012 failed. Although ministers did not believe that the new tax would jeopardize investments, a massive media campaign by the industry had succeeded in persuading the public that the reform would cost jobs, which in turn resulted in the government abandoning the reform for electoral motives (Bell/Hindmoor 2014: 472–478; cf. Bell 2012). In short, ideationalist research suggests that the power of business hinges on beliefs about its power.

To conclude, empirical studies have focused on a range of determinants of variation in business power. These studies conceptualize the structural component of business power as variable and thereby make it amenable to empirical research. To be clear, claims about variation in business power have not gone unchallenged. Domhoff in particular argues, in his wide-ranging historical research about business influence in US policymaking, that there has been "corporate dominance of the United States since 1939 on every important economic and social-welfare issue that came before Congress" (Domhoff 2013: 4). Research about the extent and causes of variation in business power is clearly still at an early stage and important issues remain unresolved. However, the focus on variation promises a methodologically more solid avenue for future research compared with the earlier studies of the 1970s, which often remained stuck in theoretical assertions that defied careful empirical investigation.

3 The social policy preferences of business

While the debate over business power abated in the late 1980s, interest in the role of business returned via a new strand of research which focused on the social policy preferences of business. What do business interest groups want and why? Under what conditions do different types of firms support or oppose various types of social policy? Are some types of firms more supportive of social policies than others? Most of this literature deals with the preferences of employers, that is, the preferences of firms that stem from labor relations. Interest in this question stems from the perception that the conventional view of employers as opponents of social protection has hitherto often remained untested and may potentially be flawed.

This section reviews some of the main arguments and findings in this literature and critically evaluates the strength of empirical evidence for the arguments discussed. I focus the discussion on studies that deal with employer interests with regard to public

social insurance programs, traditionally seen as the core of the welfare state. The review excludes business involvement in other social policy-related fields, such as education, health care, and public service provision more generally, because the literature on these fields is still too limited to allow an evaluation of findings. I begin by briefly reviewing research on the validity of the power resource view of employers' preferences (3.1). Then I examine perspectives that focus on sectoral conflicts of interest (3.2), the impact of organizational structures on preferences (3.3), and, finally, the adaptation of business to political and institutional constraints (3.4 and 3.5).

3.1 The power resource approach and employer preferences

The power resource approach attributes differences in the generosity of social protection to differences in political mobilization and strength on the part of labor and labor-allied parties (Korpi 1983; Shalev 1983; Esping-Andersen 1985; Hicks 1999). The class power logic of this approach thus starts from the assumption that business will tend to oppose social protection. As the long-established view in welfare state research, this often remains an untested assumption in empirical research. As some studies of employer preferences take issue with this assumption, however, it is worth reviewing its theoretical foundations, as well as the empirical evidence that supports it.

The power resource approach view of employer opposition to social policies rests on two theoretical arguments. First, if financed by payroll taxes, as is often the case, public social programs raise labor costs and thus, *ceteris paribus*, reduce profitability. Any hypothetical benefits of such programs to firms would thus need to outweigh these cost increases if employers are to support them.

Secondly, social benefits decommodify labor; that is, they reduce workers' dependence on paid work by raising the reservation wage. Employers will thus expect social programs to reduce labor supply and erode labor productivity. Following this logic, Esping-Andersen argued that employers oppose decommodifying social policies because they reduce employer authority over workers (Esping-Andersen 1990: 22; cf. also Korpi 2006: 198–201). A modified version of the power resource view of employer preferences takes into account that social policies differ in their degree of decommodification. When choosing between several policy options, employers will prefer the least decommodifying one; they will support moderate forms of decommodification if alternative policies would result in even greater decommodification (cf. Paster 2012b: 189–191).

Research on welfare state history provides some evidence in support of the thesis that expected decommodifying effects shape employers' evaluations of social programs. Research on inter-war Germany has documented that fear of an erosion of work incentives was the main reason why employers opposed social benefits for the unemployed: employers feared that such benefits would reward "work-shy shirkers" and reduce produc-

tivity and work discipline (Paster 2011; Brosig 2011; Führer 1990). German employers were less opposed to accident insurance, health insurance, and public pensions, as these programs benefit people who are not able to work anyway (Paster 2012b: Chapter 4; cf. also Reckendrees 2014: 17–18).

Research also provides some evidence of cases in which employers supported decommodification. The best documented example concerns the role of a segment of industry in the adoption of the Social Security Act in the United States. Some firms with occupational social programs wanted the state to play a bigger role in welfare provision in order to be able to reduce their own welfare spending and to create a level playing field with non-welfare providing firms (Section 3.4 below). However, such instances are rare and linked to exceptional political and economic conditions. On balance, employers much more often opposed the adoption of new social programs than supported them.

Studies of employers' use of programs for early exit and early retirement provide another empirically corroborated challenge to the thesis that employers oppose decommodification. If faced with a need to downsize their workforce, employers sometimes welcome decommodification, in particular where union strength and labor market regulations make labor shedding difficult (e.g. Hassel 2007: 260–263; Manow/Seils 2000: 283–284; Mares 2003a: 246–248; Streeck 2009: 59–61).

More recently, the growth of a low-wage segment of the service economy has created a renewed interest, in particular among small service firms, for less decommodifying policies, an interest that was instrumental in the reform of German labor market policy in the early 2000s and a move away from early exit policies (Pancaldi 2012a: 206–214; Hassel/Schiller 2010: 116).

In short, there is considerable evidence from historical studies that fear of decommodification was a major motive for business to oppose the adoption of social programs, but studies of the use of early exit programs also show that firms can develop an interest in decommodification when faced with over-staffing and strict employment protection rules. In short, the power resource view of employer preferences has considerable explanatory power with regard to the historical adoption of many social programs (see Section 3.4 below), but it does not exhaust the complexity of the factors that shape employers' social policy preferences, in particular with regard to the period of welfare reform from the 1980s on.

3.2 Sectoral variation in preferences

Some studies have challenged the power resource view of employers' preferences and have emphasized the positive contributions employers have made to the adoption of social programs. These accounts often highlight divisions within the business commu-

nity and cross-class alliances in favor of social protection (for example, Hellwig 2005). The view that business is internally divided has its intellectual roots in debates within Marxist state theory about the relative autonomy of the state, which, according to some, stems from divisions between factions of capital (Poulantzas [1973]1978b: 255–324; Jessop 1990: 152–156, 1983; Levine 1988: 1–19).

Today, the “factions of capital” thesis is also prominent in non-Marxist scholarship, however. According to this thesis, conflicts between segments of capital are the main force shaping politics and public policies; labor and other social groups are seen as incorporated in political compromises and alliances on subordinate terms. The literature suggests several fault-lines that may divide business and potentially lead to business-led cross-class alliances. In this section, I review evidence on three such fault-lines most frequently argued to matter in social policy: skills (3.2.1), firm size (3.2.2.), and the position of firms in the international economy (3.2.3).

3.2.1 Skills

One variant of the factions of capital argument builds on the importance of skills investments to firms. Building on the Varieties of Capitalism approach of Hall and Soskice (Hall/Soskice 2001), some scholars argue that public social policy provides incentives for workers to invest in firm- or industry-specific skills, because social protection reduces the risk of a devaluation of these skills in case of unemployment or employment in lower-skill work (Alexiadou 2011: 1981; Cusack/Iversen/Soskice 2007: 388; Estévez-Abe/Iversen/Soskice 2001: 148; Iversen 2005: 10–11; Melling 1994: 172; Manow 2001b: 155–162; Schröder 2013: 70–74). These insights into the importance of skills to firms, combined with an assertion of business power, lead some to hypothesize that “social protection often stems from the strength rather than the weakness of employers” (Estévez-Abe/Iversen/Soskice 2001: 180–181).

Evidence for skills as a source of employers’ social policy positions is mixed. Studies that find such evidence contrast with others that find no such evidence. Mares studied the role of employers in the adoption of social insurance programs in Germany and France and found that large firms that relied on skilled labor and faced high social risks supported contributory public social insurance, while small firms not dependent on skilled labor opposed any form of social insurance (Mares 2003a: 148, 2001: 207, 1997: 322). Mares’ model however leaves the outcome overdetermined, as the organizations in her study that represent large firms are also those that represent firms dependent on high skills and firms with high risk incidence. Thus, in short, the model does not resolve the issue of whether the identified sectoral differences result from skills, firm size, risk structure, or some combination of some or all of these.

Other studies reject the view that an intention to promote skill investments motivated employers to back social protection. Emmenegger and Marx find that German employers from the Weimar Republic to today have consistently favored less restrictive variants of employment protection legislation (Emmenegger/Marx 2011). Paster finds that German employers backed the adoption of unemployment insurance as a lesser evil, rather than because they expected benefits for skill formation. By cooperating in the drafting of the bill, the business federations hoped to be able to influence details of a reform they realized was unstoppable, given that a majority in parliament backed unemployment insurance. Business backing of unemployment insurance thus reflected a strategic preference, as the genuine preference for no policy to protect the unemployed was not available anymore (Paster 2012b, 2011). The importance of strategic preferences – that is, the pursuit of second-best choices – is also acknowledged by some scholars that emphasize the explanatory power of skills, in particular by Mares (2000: 224, 2009: 365–367).

Similarly, Brosig finds that German employer federations' opposition to unemployment insurance has remained unchanged from the 1950s to today. Of particular relevance to the skill formation thesis is Brosig's finding that German employers consistently pressed for stricter job acceptance rules, the rules that define what type of jobs an unemployed person can refuse without losing benefits. Stricter job acceptance rules increase pressure on the unemployed to accept employment in occupations outside their training; such rules thus clearly conflict with any putative intention to protect specific skills (Brosig 2011).

To sum up, archival evidence that an interest in skills was a relevant motive for employers in coordinated market economies to back social policy expansion is weak. There is no doubt that employers in coordinated market economies support the collective organization and public co-financing of vocational training; what is disputed is whether they see public social programs as a tool to produce the skills supply they need. The availability of occupational social policy and negotiated employment guarantees as alternative tools to secure skill investments may explain why firms do not typically turn to public social policy to secure skill investments, as shown by Rohrer for the Swiss textile industry (Rohrer 2010; see also Nijhuis 2009: 299).

However, relatively little research on the skills-cum-social policy thesis exists for the recent period, as most relevant research is on historical periods. One important contribution is the work by Pancaldi, who analyzed the use of short-time work by employers during the Great Recession in Italy and Germany and finds that an interest in retaining workers with valuable, but temporarily redundant, skills motivated employers to back this policy (Pancaldi 2011: 22–23). In contrast, Weishaupt finds that employers in Germany did not play a pro-active role in the adoption of short-time work (Weishaupt 2014). The skills-cum-social policy thesis may potentially be valid for the present, but further research is needed to identify the conditions under which it holds.

3.2.2 *Firm size*

Another variable often argued to divide business interests is firm size. Small firms are supposedly most opposed to public social policies, while larger firms are seen as more willing to accept social policies. The assumed reasons for these differences are that large firms have greater capacities to make use of social policies for the purpose of personnel management, and that smaller firms are more cost-sensitive (Martin 2000; Mares 2003b: 232–236, 2003a: 252–255; Pancaldi 2012a; Culpepper 2007: 315–317).

Evidence that firm size matters is more substantial compared with that on skills. Large firms are well documented to be those most inclined to provide occupational social programs, that is, firm-sponsored benefits, such as occupational pensions, company housing, or medical facilities. They expect occupational welfare to strengthen the loyalty and productivity of their workforce; to attract and retain skilled workers; and, historically, also to repress unionization and strikes (for example, Trampusch 2006: 126–128; Meier/Recktenwald 2006: 19–39; Rein/Wadensjö 1997; Shalev 1996a: 1; Melling 1992: 458–467; Bridgen/Meyer 2005: 771–773; Naczyk 2012: 4). Smaller firms tend not to have the financial and organizational means to pursue the associated forms of personnel management. Historically, large non-unionized firms with an authoritarian approach to labor relations began to establish occupational social programs in the late nineteenth century (Kocka 1984: 71; Melling 1992: 485–467; Gordon 1991: 167–173; Klein 2006; Jacoby 1999: 11–34). Despite the existence of similar motives, the spread of occupational welfare varies greatly across countries. In the United States, company welfare expanded in the post-war period (Jacoby 1999: 9; McCarthy 2013), while its role in Europe remained much more limited (Jackson/Vitols 2001), due to the greater role of the welfare state there.

Some studies document that firm size affects employers' preferences also with regard to public social policy. Policies that facilitate the early exit of older workers from the labor market provide evidence of conflicts between small and large firms, as large firms are the ones that use these policies most (Trampusch 2005: 212–215; Ebbinghaus 2006: 47–48; Pancaldi 2012a; Ebbinghaus 2001). Evidence from Germany, where large firms made extensive use of early retirement in the past, indicates, however, that rising labor costs have induced employers' associations to turn against these policies, a development that appears to reflect a shift in the intra-business balance of power from large to small firms (Hassel 2007: 261–262; Paster 2012b: 171–172).

Findings about the importance of firm size from studies of early retirement chime with findings from industrial relations. Studies of changes in industrial relations in Germany often identify small and medium-sized firms as those most dissatisfied with collective bargaining institutions (Hassel 2007: 261–262; Schroeder/Silvia 2003: 261–263; Thelen 2001: 83–84; Silvia 1997: 187–189; Streeck/Hassel 2003). Larger German firms still consider peaceful labor relations as an important advantage of collective bargaining (for example, Hassel/Rehder 2001). The reduction and flexibilization of working time are other issues that can pit large against small firms, as large firms have greater capacities

to make use of such policies (Schroeder 2000: 175–178). There are conflicts between large and small firms for various reasons: for Germany, Silvia and Schroeder find that greater competitive pressures and different positions in the supply chain explain why small firms are more likely to leave employers' associations, an indicator of dissatisfaction with high labor costs (Silvia/Schroeder 2007: 1445–1447). Other studies attribute small-firm opposition to social policies to post-industrialization. Pancaldi studied employer positions toward unemployment insurance and employment protection legislation in Germany and Italy and found that the pressure to deregulate comes mainly from small firms in services, which have lower productivity and a greater need for flexibility (Pancaldi 2012a, 2012b).

On balance, evidence that firm size affects social policy preferences is more robust than for skills. It is important to note two limitations, however. First, firm size correlates with other variables, such as skills, labor productivity, and sectoral location. This makes it difficult to disentangle causal mechanisms. Secondly, the category of small firms is itself diverse. Small firms are commonly grouped together with medium-sized firms, a categorization that, according to the most common definition, includes firms with up to 250 employees (European Commission 2003). Very small firms, with no or a very small number of employees (<10), constitute the largest share of firms in this category. In many cases, these business people see social programs from the perspective of benefit recipients, rather than from the employer perspective (Paster 2014).

3.2.3 *The international economy*

Another strand of research, inspired by models from international political economy, argues that firms' relations with the international economy shape their social policy preferences. Studies have analyzed how sectoral differences in trade exposure affect domestic cleavages on a range of economic policy issues (Rogowski 1989: 20; Frieden 1991: 445; Frieden 1988; Gourevitch 1989: 96–100). Gourevitch showed that employers and unions in sectors benefiting from trade sometimes form cross-class alliances in favor of free trade, whereby concessions on social policy issues can sometimes serve to lubricate a deal (cf. Gourevitch 1989: 97–98; see also Ferguson 1984).

Other studies identify an interest of firms to impose constraints on foreign competitors as a motive for supporting stricter regulation. A study by Callaghan of the attitudes of British and German business on issues of transnational regulation found that British business favored stricter EU takeover rules as a constraint on firms in other countries; the study did not, however, find a similar “constrain thy neighbor” logic with regard to works councils (Callaghan 2011). Afonso has shown that the preferences of business groups regarding regulation of the wages of transnationally posted workers can be explained by a related logic, pitting firms that benefit from cheap foreign labor against those that suffer from international wage competition, the latter thus preferring a higher wage floor for foreign competitors (Afonso 2011).

Peter Swenson also emphasized differences between traded and sheltered sectors. In a study of the development of wage bargaining institutions in Sweden and Denmark in the 1930s, Swenson shows that employers in the traded metalworking sector, where wages were low, promoted centralization of wage bargaining to reign-in wage growth in construction, which was sheltered from international competition and characterized by militant unions. By centralizing wage bargaining, employers and unions in metalworking intended to reduce the inter-sectoral wage gap (Swenson 1991: 521–523). The proactive role of Swedish employers in the centralization of wage bargaining has also been documented in other studies (Fulcher 1991: 194; Hadenius 1976: 194–196; Ingham 1974: 23).

On balance, evidence that trade exposure affects social policy preferences appears to relate largely to “package deals” in which business groups make concessions on social policy issues to achieve policy goals in other areas, such as wage policy and free trade. Some narrowly circumscribed policy issues, such as the regulation of international labor migration, do follow a genuine sectoral logic of preferences, however.

3.3 Organizational structures and preferences

While the studies discussed so far focus on firm-specific features, others focus on the impact of organizational and institutional features on preferences (Martin 1995; Martin/Swank 2011, 2012; Paster 2014; Nelson 2012; Arisi 2012; Martin/Swank 2004: 594–596). Informed by earlier research on neo-corporatism (Molina/Rhodes 2002; Schmitter/Streeck [1981]1999; Traxler 1986; Crouch 1994), these studies build on the insight that interest associations do not simply represent the preferences of their members, but shape them. The way business interests are organized affects policy positions. In general, studies find that encompassing associations and associations integrated into corporatist institutions are more supportive of public social policy (Martin 2006: 62–63; Arisi 2012: 196–204). Cathie Jo Martin and Duane Swank, for instance, have found that “the organization of employers is one of the most important determinants of ... total welfare effort. Where employers are centralized, cohesive, and economically coordinated, social welfare effort is greater” (Swank/Martin 2001: 890).

The literature suggests diverse mechanisms to explain this correlation. Some studies emphasize the cognitive impact of associations on the preferences of their members and a desire to protect channels of influence provided by corporatism (Martin/Swank 2012: 12; Nelson 2012). Behrens (2011: 215–217) and Paster (2014) focus, instead, on differences in associations’ decision-making rules, such as vote weighting, veto rights for minorities, and compulsory membership. According to these studies, rules for associational decision-making shape the process of preference aggregation, resulting in different policy positions. For example, voting systems with votes weighted according to firm size will favor larger members, while unweighted systems favor smaller members. Compulsory membership reduces, but does not eliminate, the veto power of discon-

tented minorities (Paster 2014; cf. also Paster 2012b). In short, organizational structures affect the policy positions of business interest groups by empowering or disempowering different types of firms. Clearly, the salience of rules for intra-associational preference aggregation depends on the existence of intra-associational conflicts, which may or may not arise, depending, for example, on the policy issues at hand and the degree of centralization of the associational system.

In short, empirical studies confirm that organizational structures affect policy positions. However, organizational explanations cannot stand alone and are best understood as complementary to micro-level models of employers' preferences, that is, models that deal with the preferences of individual firms (see Sections 3.2.1, 3.2.2, and 3.2.3).

3.4 Political constraints and strategic preferences

One of the most important insights from research on employers' preferences concerns the impact of *political constraints* on the policy goals and strategies of business interest groups. The policy positions of business interest groups, like those of other actors, aim to influence political decisions. In pursuit of this goal, interest groups sometimes take a position not actually shared by their members if this position is more likely to influence political decisions.⁷ Such positions can be related, for instance, to details of welfare expansionary reform plans that have solid parliamentary support. In such cases, business interest groups may be more effective in influencing policy details than in preventing the reform entirely.

Much of the debate about the involvement of business in the build-up of the welfare state thus focused on the question of whether in those cases in which business representatives cooperated in the formulation of new social policies they did so because they genuinely believed in the benefits of these programs to their members or whether they did so in order to shape details of reforms they knew were unstoppable. Conceptually, scholars distinguish between *genuine* preferences and *strategic* preferences to capture this issue (for example, Mares 2003a: 3, 2000: 224; Paster 2012b: 17). Genuine preferences are an actor's ideal outcome, strategic preferences its second-best outcome. If an actor backs a second-best outcome, because it perceives the first-best outcome to be unattainable, it pursues a strategic preference. The pursuit of strategic preferences thus reflects the limits of power.

7 The political scientist Ronald Bunn already noted the strategic nature of political stances in the 1950s (Bunn 1959: 379).

Now let us turn to research on the New Deal social policy legislation in the United States in order to elucidate the reasons for this controversy. These reforms – most notably the Social Security Act (SSA) – provided the main catalyst for this controversy.⁸ While some suggest that decisive segments of business were genuinely convinced of the benefits of these reforms and actively promoted them, others diagnose a strategic adjustment to an unfavorable political environment.

3.4.1 The New Deal social policy reforms: Genuine and strategic preferences

The controversy over the contributions of business to the New Deal reforms has its intellectual roots in the debates about the dependence of the state on the power of capitalist interests, discussed in Section 2. In the context of this debate, some scholars analyzed the adoption of the New Deal social policy legislation to show how state policies reflected mainly demands from capitalists, rather than from unions or social movements, or voter preferences. Colin Gordon argued, for instance, that “the New Deal was a creature of business demands” (1994: 4), rather than a result of mobilization by social movements or a state response to social protests. The ambition of early proponents of this view was to document the extent of the dependence of the American state on business interests, and the conservatism of US public policy. According to William Domhoff, one of the strongest proponents of this view, “[t]he idea of the American state having any significant degree of autonomy from [business owners] ... is a theoretical mistake based in empirical inaccuracies” (Domhoff 1996: 3). Scholars emphasizing state autonomy in turn strongly challenged this view on the grounds of weak empirical support and flawed inferences (Amenta/Parikh 1991; Skocpol/Amenta 1985).

Scholars interested in the nature of employers’ social policy preferences again turned to the case of the New Deal reforms to assess the importance of strategic vs. genuine preferences. The empirical observations and arguments marshaled by proponents of both sides resemble those of the earlier debate on state dependence. The arguments of those who argue that key business groups had a genuine preference for the New Deal reforms resemble those presented by the proponents of the business dominance thesis, while the arguments of those who emphasize strategic accommodation to political constraints resemble those of the state autonomy theorists. In the following paragraphs I will briefly summarize the main points of contention in this debate.

Those accounts that argue that key groups of employers had a genuine preference for the New Deal social policy reforms focus mostly on those large corporations that had adopted company welfare programs from the late nineteenth century onward, rather than on the national business federations, such as the National Association of Manu-

8 Manza (2000) reviews competing explanatory models of the New Deal reforms.

factors or the Chamber of Commerce. These corporations are variously referred to as the welfare capitalists, the corporate liberals, or the corporate moderates (Berkowitz/McQuaid 1978; Jacoby 1993; Gordon 1991).

Simplifying greatly, one can summarize the empirical narrative in these accounts as follows: the Great Depression and the fiercer cost competition it created had turned company welfare from an asset into a burden for the “welfare capitalists” and had induced a preference among them to shift the costs of welfare provision to the state. Such a shift to public programs allowed them to cut back their own programs and created a level playing field with non-welfare firms. Before the Great Depression, the welfare capitalists had invariably defended their company welfare programs against state intervention and had opposed public social programs: they insisted that welfare is the responsibility of the firm, not the state, and saw company welfare as a strategy to halt the advance of the welfare state (see, for example, Tone 1997: 7–8, 17). Some welfare capitalists were also anti-union: “welfare capitalism killed unions with kindness,” as Jacoby put it (1999: 7).

The Great Depression changed the welfare capitalists’ cost-benefit calculations. The Depression made many company welfare programs financially unsustainable and cutthroat competition from non-welfare firms became stronger. Thus many welfare capitalists did cut back their programs and promoted the adoption of public programs to spread the costs of welfare and to level the playing field. Many of them intended to continue to provide company welfare, but with reduced benefits. Company welfare now became a supplement to public welfare and could thus be cut back. Supporters of this view point to the involvement in the drafting of the SSA of a handful of individual welfare capitalists, as well as policy experts linked to them, in particular through the Business Advisory Council set up by the Roosevelt administration (for example, Gordon 1994: 240–279; Berkowitz/McQuaid 1978: 135; Domhoff 1996: 117–176; Jacoby 1993; Swenson 2002: 191–213; McQuaid 1982: 54–61). According to these studies, the involvement of these actors played a key role in the passing of the SSA.

Münnich offers a new variant of the business-centered explanation of the New Deal reforms, relying on the role of ideas as catalysts of preference change. Münnich’s account of the adoption of unemployment insurance, which was part of the New Deal reforms, suggests that a segment of business changed its genuine preferences and came to genuinely support the adoption of unemployment insurance. According to his account, changes in the political and economic context alone cannot explain this change in preferences as different policy options would have been available and were discussed among policy experts. Instead, it was the rise of liberal-corporatist ideas within parts of the business community during the 1920s that made unemployment insurance appear to be a desirable solution, which previously it had not (Münnich 2011b: 303–307;

Münnich 2010: 324–341; Münnich 2011a). In other words, according to this account, a change in ideas was the main cause of a change in policy preferences, rather than any accommodation to political constraints.⁹

Despite the considerable archival research done by protagonists of business-centered explanations of the New Deal reforms, critics remain unconvinced by the broader argument of a positive contribution of business to the New Deal (Amenta/Parikh 1991; Skocpol 1980; Skocpol/Amenta 1985; Hacker/Pierson 2002; Paster 2013). These critics insist on the importance of the broader political and economic shifts that occurred in the wake of the Great Depression, which temporarily suspended business power and allowed the issue of public welfare reform to emerge on the political agenda. They argue that business-centered explanations rest on an implausible counter-factual, namely that public social programs would either not have been adopted, or, if adopted, would have been of more limited scope in the absence of the observed business involvement. In other words, according to this view, business-centered explanations rely on spurious correlation.

Important empirical observations support the critics' view. Firstly, critics note that only a handful of business representatives cooperated in the drafting of the SSA bill; the vast majority of politically active business representatives and all national business federations opposed social programs (Skocpol/Amenta 1985: 572; Amenta/Parikh 1991: 126–128). Allen analyzed contributions by major capitalists to the 1936 presidential campaigns and found that four out of five capitalists who contributed gave to the Republican Party, which suggests that most major capitalists were opposed to Roosevelt's New Deal (Allen 1991: 687).

Secondly, critics point to evidence of strategic preferences. While the welfare capitalists had a genuine interest in public welfare, the vast majority of business representatives either opposed the SSA or participated in policy-making for strategic reasons, such as watering down legislation or gaining exceptions for their constituency. The exclusion of agricultural and domestic workers from the SSA, which was intended to protect the racial labor market order in the South, was such an exception (Katznelson 2013). In particular the national business federations, the National Association of Manufacturers and the Chamber of Commerce, wanted mainly to water down the plan, as Hacker and Pierson have shown (Hacker/Pierson 2002: 298–305). Their decision to participate in the drafting of New Deal social policy legislation reflected a strategic response to their loss of power.

To conclude, research on the New Deal social policy reforms shows considerable evidence for strategic accommodation. While the welfare capitalists had a genuine interest in public welfare, they were a minority within the business community, and the circum-

9 Woll (2008: 3–19) makes a similar argument, suggesting that ideas have a constitutive role in preference formation. Woll analyzed the changing preferences of firms toward product market liberalization in telecommunications and air transport.

stances that motivated them to promote public welfare defy generalization. In contrast, the insights gained on the role of strategic accommodation are of greater generalizability, as studies on other reform episodes in several countries have identified similar phenomena of strategically motivated support for some social programs (Mares 2000; Paster 2012b; Broockman 2012; Korpi 2006). On balance, a large share of the cases in which business groups accepted or endorsed the adoption or expansion of social programs can be explained by strategic preferences, while evidence of genuine business support for new social programs is more limited and often explained by political and economic contingencies that were exceptional and thus difficult to generalize.

3.5 Adaptation and preference change: Reconciliation or radicalization?

While the studies discussed in the previous section deal with adaptation to political constraints, the *Varieties of Capitalism* approach (Hall/Soskice 2001) has inspired a strand of research that looks at business adaptation to the institutional environment (Hassel 2007: 254–255; Thelen 2001). The causal arrow here goes from institutions to preferences: firms adjust their production strategies to institutions and, as a result, become dependent on these institutions for the continuation of these production strategies. Successful adaptation to institutional constraints may result in employers giving up their erstwhile opposition to these institutions and defending them against neoliberal demands for dismantling (Hall 2007: 63; Hancké/Rhodes/Thatcher 2007: 19–23; Hassel 2007: 254–255; Iversen/Soskice 2009: 447; Wood 2001b: 407–409; Wood 2001a: 253). I call this view the *institutional adaptation thesis*.

Evidence regarding the institutional adaptation thesis is mixed. Evidence of business acceptance of institutions it formerly opposed exists for some institutions in some countries, but contrasts with evidence of a neoliberal turn among employers in other areas and other cases. For Germany, the studies by Emmenegger and Marx (2011) and by Borsig (2011), discussed earlier, find that employers' opposition to employment protection and to unemployment insurance, respectively, remained unchanged over time, also during the postwar period. Also of relevance is the finding by Emmenegger that employers in some European countries use institutional ambiguities to circumvent dismissal protection rules, which speaks against the institutional adaptation thesis (Emmenegger 2014: 18).

However, there is also some evidence in favor of the institutional adaptation thesis. Works councils and board-level codetermination are institutions whose adoption employers originally opposed, but over time came to support, as survey data of executives show, even though the business federations continue to campaign for a curtailment of these rights (Paster 2012a: 488–489; Höpner/Waclawczyk 2012; Berg 2014). Thomsen et al. find that in the Nordic countries firms tend to choose board sizes that minimize the number of employee representatives (Thomsen/Rose/Kronborg 2015). Economet-

ric studies about management attitudes toward works councils in Germany and in the Netherlands have shown that attitudes are affected by the leadership styles and human resource strategies of management (Jirjahn/Smith 2006; Berg/Grift/Van Witteloostuijn 2011), which suggests that some firms succeed in using works councils to improve their performance.

Concerning wage bargaining, an erosion of coverage is well documented for Germany, but studies differ in its interpretation. The controversy resembles one of whether the glass is half full or half empty. Some point out that continued support from dominant segments of industry explain the survival of collective bargaining institutions, notwithstanding declining support from smaller firms in some sectors (Thelen 2001: 101–102; Thelen/Kume 2003: 184; Hassel 2007: 254; Silvia 2013: 200–219; Wood 1997: 26; Wood 2001b: 408). Others point to growing campaigns from within German business for deregulation and flexibilization, questioning the view that business serves as an obstacle to change (Kinderman 2005: 433; Menz 2005: 198; Paster 2009: 272–275; Speth 2004; Gammelín/Hamann 2006: 133–137; Paster 2010).

Looking at the long term, attitudes of German business toward collective bargaining take a U-shaped form: like employers in other countries, German employers initially pursued an authoritarian approach to labor relations and came to fully support collective bargaining and associated norms of social compromise only in the post-war period; in recent decades a U-turn occurred and support declined (Paster 2012b: Chapter 3). However, to the extent that the German model persists it does so due to what remains of employer support, rather than due to the strength of unions, as the organizational strength of unions is weaker. In other words, parts of German employers genuinely support collective bargaining, which supports the institutional adaptation thesis.

The institutional adaptation thesis contrasts with research that documents a business turn from the 1970s onwards to a free-market and anti-welfare agenda, in particular in the United States but to a lesser extent also in some European countries. For the United States, several studies have documented in detail an invigoration from the 1970s on of business campaigning against high taxes, social spending, and labor-friendly regulations (Block 2007: 14–26; Block/Somers 2014: 204–217; Daguerre 2014; Gourevitch 1986: 208–214; Hacker/Pierson 2010; Mizruchi 2013: 154–168; King/Wood 1999; McQuaid 1982: 284–305; Waterhouse 2013a; Waterhouse 2013b). Conservative segments within the US business community always fought against New Deal liberalism (Phillips-Fein 2010; Fones-Wolf 1996; Domhoff 2013), but since the 1970s a free-market and anti-welfare turn has occurred also among previously moderate segments of US business, while at the same time “corporate liberalism” has virtually collapsed, as Mizruchi in particular has shown (Mizruchi 2013).

To be clear, the institutional adaptation thesis does not predict business support for protective social policies in a liberal market economy such as the United States, but other studies have observed similar trends also in France, Sweden, and Germany. For

Sweden, studies by Blyth and by Ryner have documented how the national business federation there shifted its strategy from the 1970s onwards to ideational contestation of the Swedish model, with the goal of delegitimizing its institutions and the associated distributive outcomes (Blyth 2001: 2–3, 2002: 211–219; Ryner 2002: 134–170; see also Pontusson/Swenson 1996: 230–231; Svallfors 2015). For Germany, studies by Kinderman (2005, 2014), Menz (2005), and Speth (2004) document a similar intensification of efforts by business associations to delegitimize social programs and “big government” through a “war of ideas,” even though, unlike Swedish employers, German employers’ associations did not attack corporatist bargaining. Woll observes similar developments in France: the national employer federation there shifted away from corporatist compromises and turned toward a more aggressive strategy of public campaigning and lobbying (Woll 2006b). Austria appears to be an exception to this trend, as no comparable turn against corporatism and welfare programs can be observed there (Paster 2014). In sum, we can identify an intensification of business lobbying against big government and welfare spending and in favor of tax cuts in many countries, often linked to a shift from corporatist bargaining to public campaigning, although there is considerable variation and none of the European countries have experienced a business radicalization comparable in intensity to that in the United States.

To conclude, research shows that preference change does happen, but it does not necessarily go in the direction of greater support for existing institutions. Cases of business reconciliation with institutions originally opposed exist, but the broader picture since the 1970s is one of a free-market turn on the part of business interest groups and a more outspoken anti-welfarist political agenda in many countries. This reflects an increased ideational assertiveness of business groups and correlates with structural changes in the economy and society: the rise of social expenditure in recent decades combines with increased cost competition and increased structural power on the part of business due to the deregulation of capital markets and global capital mobility. Understanding these changes requires a combination of preference analysis and power analysis: taken together, these political and economic factors have resulted in a simultaneous strengthening and radicalization of business, even though these developments may happen very unevenly in different countries.

4 How the study of power can move forward research on business and the welfare state

This paper reviewed two strands of research about business and welfare state politics: power-centered research and preference-centered research. A new scholarly interest in the preferences of business from the 1980s replaced the earlier interest in questions of business power. This new preference-centered approach has inspired a much larger body of empirical research than the earlier power-centered approach and has made

great progress in understanding the sources of employers' social policy preferences. The focus on preferences has come at a price, however: the analytic neglect of questions of business power.

Like the earlier Marxist accounts of the state, business preference-centered accounts of policy-making often assume that governments act at the behest of business, or of parts of business. Policy choices are explained by the preferences of different segments of business and the alliances these segments form to attain their preferences. Business preference-centered accounts of policy-making often pay little attention to other factors, such as the role of electoral politics and the autonomous role of political parties, or conflicts between government and business. If conflict plays a role in business preference-centered accounts, it is conflicts between different types of business, rather than conflicts between business and government or other political actors.

Power-centered research shows great variation in business power, however. Thus, neither accounts that ignore the role of business nor accounts that assume that business dictates policy choices seem adequate. We need to understand the importance of business influence relative to other causes known to shape welfare state politics, such as problem pressure, electoral and partisan politics, or institutional path dependencies.¹⁰ At present, we lack such an integrative account of the impact of business interest groups on welfare state politics. Three decades of preference-centered research have provided us with a much more nuanced understanding of business preferences and their sources. We know much better, for instance, which policy issues divide and which unite the business community. We also know much better how genuine and strategic preferences interact in forming policy positions. But we still know little about the relative impact of business interest groups on policy choices relative to other factors.

This state of affairs results from the separation of research fields, as I've tried to show in this paper. Studies dealing with business influence rarely look at the social policy field, while studies of the social policy preferences of business sideline issues of influence and power. In the remainder of this section I will present some examples of analytical and empirical issues to show how they could benefit from a focus on business power.

First, one of the main insights from comparative-historical research on the impact of business on welfare state development regards the role of *strategic preferences*, as shown in Section 3.4. Even though disputes about the relative importance and the interaction of genuine and strategic preferences continue, we have considerable evidence that business support for expansionary social reforms often reflects strategic preferences. This pursuit of strategic preferences points to the limits of business power. Business has often accepted expansionary reforms when its own power was limited, for instance, due to reformist parliamentary majorities. These findings from welfare state history

10 For overviews of different theories of welfare state politics, see, for instance, Hicks and Esping-Andersen (2005: 514–520) and van Kersbergen and Manow (2008: 523–540).

thus indicate considerable variation in business power; business does not always prevail, it sometimes has to accommodate political constraints. However, we do not fully understand the sources of this variation. What are the conditions that suspend business dominance? The literature on variation in business power, discussed in Section 2.1, offers a rich source of hypotheses on variations in business power, but not much work has been done so far to apply and test these hypotheses in the field of welfare state research.

Second, the pursuit of strategic preferences indicates that the role of business in politics is not only an influencing one, but also an adaptive one, as Schumpeter already noted (Schumpeter [1942]2010: 47). Business does not simply accept a decline in its political dominance, it adapts to such a decline to remain politically relevant. While some organizational sociologists and management scholars acknowledge this two-way nature of business-government relations (Preston/Post 1975: 3–4; Zimmer/Ortmann 2001: 48; Ortmann/Zimmer 2001: 312–313), political scientists studying business influence frequently neglect the role of goal adaptation.¹¹ By looking only at how business interest groups influence policy decisions in line with their stated preferences, we risk overlooking the extent to which these preferences are an adaptation to political constraints and, as a result, we may overestimate the influence of business.

In short, power-centered and preference-centered research can learn from each other. Power-centered accounts need to pay attention to the possibility of strategic preferences, something that requires careful case-study analysis and a systematic consideration of the political context within which business influence takes place. Preference-centered accounts need to pay attention to a variation in business influence and its sources. Changes in business power affect also the policy goals and preferences that business interest groups advocate.

The increasing political assertiveness and radicalization of business in recent decades, discussed in Section 3.5, is one important issue that requires attention to changes in preferences and in power. The deregulation of capital markets and increased opportunities for capital mobility have strengthened the credibility of exit threats. At the same time, lackluster economic growth has intensified public susceptibility to the demands of the business community, because in the public perception business-friendly policies are associated – rightly or wrongly – with higher rates of growth. Yet, in contrast to what Hirschman presumed (1970: 33–34), the increase in exit opportunities has led not to a neglect but an intensification of the use of voice.

However, these developments appear to be highly uneven across countries, especially pronounced in the United States, but much less so in some European countries (for example, Paster 2014). Understanding the sources of this increased assertiveness and pro-market turn requires us to pay attention to both changes in preferences and changes in

11 An important exception to this is Block's Polanyian perspective on business-government relations, which emphasizes power as well as adaptation (Block 1986: 181).

power resources. Explanations of these changes, that focus on increased competitive pressures, increased global capital mobility, and increased ideational credibility, all suggest an interaction between changes in both preferences and power.

Attention to power is of particular importance also for the analysis of sectoral and other intra-business differences. The way in which sectoral differences in preferences matter depends crucially on the sectoral balance of power. Many studies have identified small firms as those most reluctant to accept expensive social programs and collectively bargained regulations (see Section 3.2.2). But whether small firms revolt against existing institutions depends crucially on how well represented they are within business interest groups. A comparison of Germany and Austria – often seen as very similar – illustrates this aspect. In Germany, an underrepresentation of small firms within employers' associations led to small firms leaving sectoral collective bargaining, as they perceived that collective agreements did not take their needs into account. In contrast, in Austria, where the interests of small firms enjoy much better representation within the national employer federation, no such revolt by small firms has occurred (Paster 2014; Culpepper 2007: 624). In short, the intra-business power balance matters for how sectoral cleavages play out.

Future research on business and social policy also needs to tackle new empirical fields and issues. Most research on the involvement of business in welfare state politics so far has dealt with a fairly narrow range of policy fields, as we have seen in Section 3, in particular the adoption and development of social insurance programs and industrial relations institutions. Business impact on other fields remains understudied, such as active labor market policies, education and training, family policy, health care, and migration.¹² Research on countries not in the OECD is also very limited.¹³ Business preferences in these fields and countries may possibly follow different logics and deserve further research; expanding research into new policy fields and countries can thus help us to establish the scope conditions of existing findings.

12 Some examples of important studies of business impact in these fields are Martin and Swank on employer participation in active labor market policies in Denmark and the United Kingdom (Martin/Swank 2004; Martin 2004: 66–69), Nelson on active labor market policy participation of firms in Germany and Denmark (Nelson 2012), Fleckenstein and Seeleib-Kaiser on family policy in Germany and the United Kingdom (Fleckenstein/Seeleib-Kaiser 2011), Farnsworth on public service provision and training policies in in the United Kingdom (Farnsworth/Holden 2006; Farnsworth 2005b), Bowman on vocational training in Norway (Bowman 2005), Busemeyer on vocational training in Germany (Busemeyer 2011), and Menz on migration policy (Menz 2011).

13 Some recent important contributions on (former) non-OECD countries are: Moudud et al. (2014) on social policies in Argentina and Chile; Marques (2014) on employers' social policy preferences in Russia; Duvanova (2013) on the role of business interest associations in Croatia, Kazakhstan, Russia, and Ukraine in fighting corruption and creating predictable regulatory regimes; Bohle and Geskovits (2006) on the preferences of transnational corporations in Eastern Europe.

Another important issue that remains understudied is the impact of financial-market actors and financialization on social policy-making. Most relevant research so far has dealt with employer preferences, that is, preferences stemming from firms' labor market interests. Product market-related social policy preferences of business remain underexplored.¹⁴ With the rise of financial markets in the provision of social security, especially through private pension funds, the political interventions of financial firms on issues such as pension privatization and regulations affecting their own operation deserve further research. Research on the relationship of financial market actors and social policy is growing (Leimgruber 2008; Gospel/Pendleton/Vitols 2014; Naczyk 2012; Shalev 1996b; Soederberg 2010), but much remains to be done.

The rise of financial markets has intensified a new type of structural dependence, different from the one that Lindblom and others had in mind, a dependence not on productive investments but on the provision of credit and debt. The bank bailouts following the 2009 financial crisis made this dimension of structural dependence fully apparent (see, for example, Culpepper/Reinke 2014; Streeck 2014; Woll 2014). To understand how dependence on financial markets affects social policy-making again requires attention to the sources of power and to the preferences of financial-market actors. Possible differences in social policy preferences between financial market actors and employers, as well as between different types of capital owners, concern another related topic that requires further research.

Remarkably, while business influence has increased in the course of globalization and financialization, scholarly interest in the study of business power has receded. Research in the past three decades on business and the welfare state has made tremendous progress on questions related to business preferences, such as which policy issues unite and which divide business, how strategic and genuine preferences interact, and how business adapts its policy positions to political conditions. At the same time, however, scholars of business and the welfare state have lost sight of questions of business power, its sources and implications for welfare state outcomes. Reintegration of such a focus on power, I've argued in this paper, offers a promising research agenda. Welfare state policies involve distributive issues on many dimensions and thus offer a research field ideally suited for the study of the scope and limits of business power.

14 Important contributions to the study of product market preferences of firms are Naczyk (2012) on the role of private insurance providers in the privatization of pensions in Belgium and France, and Leimgruber (2008) on the involvement of private insurance companies in the development of the public-private pension mix in Switzerland.

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