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Politics in the interest of capital: A not-so-organized combat

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Politics in the Interest of Capital

A Not-So-Organized Combat

Cornelia Woll
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*Politics in the Interest of Capital: A Not-So-Organized Combat*

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Abstract

The rise in inequality has been explained with reference to organized groups and the lobbying of the financial sector. This article argues that the image of politics as organized combat is contradicted by empirical evidence on lobbying in the United States, and does not travel well to Europe. The power of finance does not operate through organized political influence. Rather, politics in the interest of capital unfolds as a structural feature of advanced economies over time. Tellingly, at the height of the financial crisis, one of the most promising strategies of institutions seeking government support was not organizing for combat, but collective inaction. Our challenge, then, is to explain how the power of finance has built up and is playing out in creating inequality. A more structural, less agency-focused perspective highlights how the rise of finance has been supported by actors that few would accuse of being finance-friendly, such as the European center-left parties and consumers. Reconceptualizing the power of finance has important implications for political solutions to rising inequality.

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1 Introduction

With the publications of Piketty’s (2014) *Capital in the Twenty-First Century* and Hacker and Pierson’s (2011) *Winner-Take-All Politics*, the politics of inequality have again become a central element of the social science research agenda. While some may have brushed off the insights of Hacker and Pierson’s work as relevant only to the United States, Piketty’s research sheds doubts on such a perspective and urges us to provide comparative answers to the trends he has documented across advanced industrial societies. The financialization of advanced economies seems to play a crucial role across countries (cf. Godechot 2015). Indeed, finance is front and center in Hacker and Pierson’s analysis of “politics as organized combat,” where groups struggle to influence policies behind the scenes of the “electoral spectacle.”

There is much to commend in Hacker and Pierson’s analysis of a growing bias in US politics in favor of the wealthiest parts of society. But their image of politics as organized combat and their insistence on interest group pressure draws our attention in the wrong direction. First, there is increasing evidence in the literature that organized groups are less pivotal in US politics than has been generally assumed. Moreover, the insights on group politics in Hacker and Pierson do not travel well to Europe. Despite the fundamentally different forms of political organization across the Atlantic, many of the policies in Europe that are likely to generate rising inequality have undergone similar changes to those in the US, and have been supported by political actors, such as the European center-left parties, that few would accuse of being finance-friendly. The challenge, then, is to explain how the power of finance has built up and is playing out in creating inequality across countries: this requires a somewhat more structural, less agency-focused perspective.

In this contribution, I propose to conceptualize the political influence and power of finance not through combat, but through impersonal structures unfolding over time. At the height of the crisis, one of the most promising strategies of financial institutions seeking government support was not concerted action, but collective inaction. Hacker and Pierson document several of the mechanisms of such impersonal power structures in their own writings (Hacker/Pierson/Thelen 2012; Hacker/Pierson 2002, 2010a;
Pierson 2013). I follow their lead in rethinking structural power but ultimately call for a revision of the somewhat superficial image of politics as organized combat that many readers retain from Winner-Take-All Politics.

The following article is structured in three parts. I begin by returning to the original notion of politics as organized combat, where I discuss how it is being used by the authors and indicate how this influences our perception of the politics of inequality. A second part sheds doubt on this notion in several ways. First, I document the decline of organized groups in US politics and the limits of lobbying in Washington that recent research has highlighted. Second, I show how very different sets of actors have supported similar policies in Europe, despite being quite removed from finance. Third, I briefly compare bank bailouts to illustrate how disorganization has in fact been a source of strength for certain economic actors, in particular financial institutions, in the midst of the recent crisis. In the third part, I propose to reconceptualize the rise of finance in terms of structural power, relying on agency-less mechanisms ranging from policy drift to decentralized system dynamics. The conclusion of the paper discusses the political implications of such a perspective for those trying to reduce rising economic inequality.

2 Politics as organized combat

For Hacker and Pierson (2011), the crux of political accounts of American politics is their focus on campaigns and election outcomes. But because such accounts concentrate on whether the administration and Congress subsequently move left or right, they fail to analyze “what the government was actually doing,” (ibid.: 96) and therefore lead to false conclusions. As Hacker and Pierson have documented, an important shift toward policies traditionally attributed to the right happened under Democratic president Jimmy Carter in 1977 and 1978. During this period of unified Democratic control of both houses of Congress, where electoral analysis would have assumed a sharply leftward shift, many left-leaning policy initiatives were defeated. As the authors summarize, “the precursors of the Reagan revolution were already visible” (ibid.: 99). The gap between election results, party stripe, and actual policy content demonstrates that researchers should move beyond analyzing voter preferences and start asking questions about the evolution of public policies if they are to grasp the most significant political dynamics. In a later article, Hacker and Pierson (2014) lament that political science too has failed to adequately analyze these evolutions because of mainstream theory’s excessive focus on vote choice, campaigns, and elections, reflected in the “Master Theory” developed by Anthony Downs (1957).
To move beyond “the electoral spectacle,” Hacker and Pierson (2010b, 2011) propose to conceive of “politics as organized combat.” Rather than study only episodes of political competition for office, they urge us to understand politics as a sustained contest over enduring stakes, in fine, the capacity to make policies. Holding office is therefore just a means to an end. For societal actors, “gaining and using control over political authority requires organization” (Hacker/Pierson 2010b: 172). “The main competitors [in the political arena], the ones in the ring from start to finish wielding their weapons and enduring each other’s blows, are organized groups,” not voters, according to Hacker and Pierson (2011: 102). They underline that influencing policy over time necessitates exceptional resources in order to overcome collective action problems and coordinate with others, develop expertise, focus sustained attention, and operate across interlinked domains. It is therefore paramount to understand how groups mobilize to influence government action over time.

In developing this argument, Hacker and Pierson (e.g., 2010b: 172) rely on classical interest group theory, which views lobbying as an exchange that can ultimately produce “capture” (Becker 1983; Stigler 1971): policies will be biased in favor of the special interests that wield the most resources and have the most intense preferences (Olson 1965). These groups lobby politicians across the political spectrum, and the exertion of this pressure explains policy evolution even when no particular influence appears visible. This happens first and foremost because organized groups have the capacity to shape the policy agenda by keeping contested issues off the table and encouraging symbolic actions instead of substantial ones (see Kingdon 2003). This influence is particularly effective when public salience is low (see Culpepper 2011). Second, organized groups can prevent the updating of policies they consider to be harmful, decreasing their impact over time. Although this does not appear to require political action, such policy drift results from groups pressuring policymakers to “simply sit on their hands” (Hacker/Pierson 2010b: 173). This invisible type of power has been labeled the “second face of power” by Lukes (1974) and is based on what Bachrach and Baratz (1963) have termed “non-decisions.” Organized groups are thus pivotal in Hacker and Pierson’s account, even if the general public or a superficial observer cannot detect their intervention.

Hacker and Pierson are right to insist on the peripheral importance of campaigning and elections and to urge us to study policy evolution in order to understand shifting political dynamics over time. In so doing, they have made a major contribution to increasing our awareness of the politics of inequality in the United States and beyond: they help us focus on what is actually produced. There is certainly a lot of evidence that lobbying, broadly defined, plays a major role in US politics and should be a necessary part of any analysis of policy conflict. Yet identifying such activities is insufficient to demonstrate their causal influence. Moreover, we now have increasing scientific evidence that organized groups are less central than Hacker and Pierson suggest. The causal story provided in their account is thus too simple, and not in line with empirical
studies of lobbying influence in the US. In addition, it does not travel well to Europe. Let us turn to evidence that sheds doubt on a neat account of policy evolution based on lobbying alone.

3 Limitations

The following section discusses three developments that are puzzling in light of Hacker and Pierson's analysis: (1) the decline of organized groups in US politics, (2) similar evolutions in Europe in the absence of a US-style system of interest intermediation, and (3) the extensive benefits special interests can obtain without exerting pressure or organizing policy drift, as will be shown in my discussion of the recent bank bailouts in the US and Europe.

The decline of organized groups

The decline of organized groups may seem striking, given that the number of lobbyists in Washington and the amount of resources spent on campaign finance and lobbying have exploded over time (Kuhner 2014; Lessig 2011). But it is important to distinguish the omnipresence of private money in US politics from the organization of interest groups, and from their potential influence over policies. To be sure, financial resources are essential to gain access to US politics, and this necessarily creates important biases in favor of the entities with the most cash. This should not lead us to simply assume that those interests are well coordinated, however. Coordination, which is the central feature of organized groups, has actually been in sharp decline in US politics.

To begin with, centrally organized groups have always been more fragmented in the United States than in other countries, even on the business side. One will search in vain for a comprehensive capitalist organization willing or able to act as a counterpart to the American labor association of the AFL-CIO. Rather, following Gourevitch's (1986) analysis of the politics of economic crises, analysts in political economy have focused on the fluid coalitions that form around individual issues (e.g., Rogowski 1989). But the cohesion of even these coalitions is questionable. In a recent book, Mizruchi (2013) provides a detailed historical account of the fracturing of the American corporate elite. He shows that corporate leaders were most organized and influential in the 1960s and 1970s, as represented through organizations such as the Business Roundtable and the Committee for Economic Development. Corporate leaders under the considerable political pressure of the postwar consensus were moderate in their contributions during this time, but they also encouraged tax cuts and deregulation (see also Waterhouse 2013).
Ironically, their success resulted in the breaking apart of business coordination. With a weakening of the labor movement and the transformation of corporate governance toward shareholder value, corporate leaders retreated from political coalitions and focused exclusively on individual benefits.

This trend was further accelerated by the decline of commercial banks, whose boardrooms had been the meeting place for the leaders of the corporate community. With the rise of alternative sources of funding, banks lost their centrality in the American corporate network, which experienced a sharp drop in cohesion (Davis/Mizruchi 1999). Between the early 1980s and the mid-1990s, the number of directors holding simultaneous seats on several boards (so-called interlocks) declined by 15 to 20 percent (see also Barnes/Ritter 2001); between 2000 and 2010, it dropped by more than 30 percent (Chu/Davis 2013). The “inner circle” identified by Useem (1986) in the 1980s dissolved in the two decades that followed. During the 1990s and 2000s, when business leaders rose to celebrity status in the media and were known to the average American, they spent successively less time meeting each other and coordinating political strategies.

The limited influence of organized groups is also confirmed in Smith’s (2000) extensive policy-focused study of the lobbying efforts by the US Chamber of Commerce, arguably one of the most visible business associations throughout the decades. Examining well over two thousand issues that the Chamber of Commerce took a position on, he shows that it tends to lose its battles unless it has public opinion on its side. The issues that American business is willing to work on collectively have high political salience, which gives politicians an electoral incentive to resist the united corporate front and become more responsive to electoral constituencies. As we know from Culpepper (2011), corporate interests are most effectively defended in “quiet politics.” The active coordination of business interests thus faces a paradox: comprehensive organization and coordination requires stakes that are of relevance to all different types of business actors, but these are precisely the types of issues that will diminish the influence corporate groups can have.

Does this mean that business will simply retreat from large encompassing associations and continue to wage its battles through smaller, issue-specific interest groups, or even individually? Although this has certainly been the case, we have reasons to doubt the effectiveness of even such specific efforts. To be sure, business groups and individual corporations lobbying in Washington outnumber so-called citizen groups (Brasher 2014). Their omnipresence and superior resources, along with the impressive anecdotal evidence of business success on specific issues, have led researchers and the public to assume that money is directly related to lobbying success. Yet Grossman (2012) finds that policy change is more often associated with advocacy groups than with business groups (see also Berry 1999). Using the measurements of historians who have established positive group influence over individual policy cases, he also documents that identified interest group influence is in slight decline — although it remains in a relatively continuous range of 40 to 60 percent. While some portion of this trend may be linked to the
particular form of measurement, it is noteworthy “that reported interest group influence failed to increase during the numerical explosion of group mobilization in the 1970s” (Grossmann 2012:180).

In a recent study, Baumgartner et al. (2009) use a painstakingly constructed random sample of lobbying issues and participants to come to surprising and similar results: most importantly, that the relationship between money and policy change is close to zero (see also Ansolabehere/de Figueiredo/Snyder 2003). There are several reasons for this finding. First, citizen groups are more likely to be cited as central players, despite being outnumbered. Second, influencing policy change necessitates overcoming a massive status quo bias in American politics. This in turn requires the successful construction of advocacy coalitions from inside and outside the government that most often span the business and nonprofit sector. In many cases – and this is the third point – these heterogeneous coalitions can be found on both sides of a policy issue. As Baumgartner et al. document for nearly one hundred randomly chosen cases, rich interest groups do not just ally with the rich, nor do the poor group with the poor: they mix. The recurrence of such alliances thus tempers the effect of money on interest group success.

Martin Gilens’ (2012) recent study of the relationship between wealth and political influence provides further interesting results. In an equally impressive research design, he uses survey data on policy preferences for 1,779 issues (support vs. oppose) and compares these to actual policy change four years later, asking whether average citizens, economic elites, or organized groups are most likely to see their wishes translated into decisions. The sobering and most fundamental finding is that average citizen preferences have little or no effect on policy outcomes; their preferences correlate only very modestly with interest groups, even those classified as “mass-based.” To put it differently, the average American is not well represented through organized groups and does not shape policy dynamics through electoral mechanisms or public opinion pressure. Echoing Hacker and Pierson, the study confirms that American politics does not function as the theories of majoritarian electoral democracy would propose (Gilens/Page 2014).

More importantly for our discussion, however, the category that appears to have the largest impact on policy outcomes is not groups, but affluent citizens. These economic elites, measured as respondents with income levels at the ninetieth percentile, have a separate effect on policy change that is almost twice as large as business groups, whose effect is in turn twice as large as mass-based groups (Gilens/Page 2014: 575, Table 4). Moreover, the association between affluent citizen preferences and business group preferences is surprisingly low (ibid.: 15). Similarly to Baumgartner et al., Gilens’ data shows that the success of an average business group is roughly equal to an average mass-based group. At the aggregate level, however, the numerical advantage of business groups in Washington creates a greater correlation between business group preferences
and policy change. What is more, and in line with popular sentiment, a combination of preferences from economic elites and business groups increases the likelihood of policy change substantially.

In sum, we face a puzzle. Affluence and influence work in tandem in American politics, but this is not because of the superiority of organized groups. It is certainly an advantage to be rich in Washington, but the coordination of business interests has been in rapid decline over the past two decades, and wealthy groups often face equally wealthy opponents. Overall, the most significant impact seems to come from the preferences of affluent citizens, not groups. In a nutshell, American politics works in the interest of capital, but our understanding of the mechanisms of this influence is patchy at best.

Moving to Europe

Comparing US politics to European trends provides additional reasons to doubt that interest group activities can explain the policy shifts in favor of capital interests. A central feature of the politics of inequality in Hacker and Pierson’s account is the convergence of political parties on policies that affect pre-tax and pre-transfer income (see also Piketty 2014: 427–479). They explain this convergence by the rise of business groups and their increasing numbers, the role of campaign finance assistance that these groups can provide to both Republicans and Democrats, and the decline of middle-class organizations focused on economic issues, such as trade unions (Hacker/Pierson 2010b: 168–182). When looking at different countries in Europe, we can see that middle-class economic organizations remain more firmly established in many cases and that in Europe the campaign funding is mostly public, which removes one of the main channels of influence featured in the analysis of American politics. Still, despite these apparent differences in political structures, European parties have converged on economic and monetary policies too, in ways largely comparable to the United States.

To be sure, trade unions are under pressure in all advanced industrialized societies, and their density has generally declined in recent decades (Ebbinghaus/Visser 2000; Gumbrell-McCormick/Hyman 2013). Variation across countries still exists, however, and both union density and the prevalence of collective bargaining in Europe is substantially higher than in the US. Hacker and Pierson (2011: 58) underline this point, arguing that unionization has been halved in the US, whereas it has dropped by only a third in the European Union. What is more, the rate of unionization in Canada started out nearly identical to the US, but has remained at 25 to 30 percent, whereas in the US it is barely above 10 percent. In Europe, it is more helpful to distinguish between different countries, since Scandinavian countries still have a rate of unionization of around 70 percent of the workforce, whereas others, such as the UK or Ireland, are at 27 percent and 37 percent, respectively. At the bottom, French union density is well below the US,
at 8 percent (Gumbrell-McCormick/Hyman 2013: 4–5). In terms of income inequality dynamics, however, France is closer to Sweden than to the UK, a country that has evolved in ways that make it comparable to the US (Piketty 2014: 500–510). As we know from the comparative political economy and industrial relations literature, what matters is not just pure union numbers, but the role that unions play in the institutional setup of a country and the ties they have to political parties. Overall, it is fair to say that on many of these counts, unions continue to be more present in European politics than they are in the US (e.g., Frege/Kelly 2004; Hassel 2015).

In addition, the central mechanisms through which business groups are assumed to wage their battles in Washington – financial contributions – are regulated quite differently throughout Europe. Most importantly, public funding of both campaigns and party activities plays a substantial role in Europe.1 This rise of public party funding was pioneered in northern European countries in the 1960s, but spread steadily and today has been widely adopted in liberal democracies (Ewing/Issacharoff 2006: 4–5). According to Koß (2010), the emergence of public funding regimes is linked to party politics, where coalitional dynamics and the discourse of political corruption affect whether sufficient support to introduce public subsidies is available across the party spectrum. He distinguishes between party systems with substantial state funding (Germany and Sweden) and those where proposals to introduce public funding were unsuccessful (France and the UK). France did succeed in introducing state funding in 1988, however, and had considerably extended it by 1995. This is significantly later than in Germany (1959) and Sweden (1965), but it documents the general trend of convergence toward public party funding regimes. Only in the UK is reliance still mainly on private funding, despite a modest “policy development fund” introduced in 2000. This makes it an exception in Europe, together with Switzerland and Luxembourg, since public funding is the norm today elsewhere. Public support for parties and candidates often also goes beyond direct funding, and can include the allocation of free airtime for advertisements, free space for billboards (Germany, Spain), free use of halls in public buildings (Spain, the UK), and free mailing services (the UK).

The normative concern with private funding is indeed that this resource dependence will create unequal access for different stakeholders and favor business groups. More generally, it is linked to potential corruption. Empirically, Koß (2010: 103–27) has documented that conservative parties in Germany were eager to move toward public funding in order to free themselves from business influence. This illustrates that we should expect organized business influence over European governments to have decreased in

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1 Public funding for electoral candidates exists in several US states, and has for presidential elections since 1976, but the great majority of funding comes from private sources. For an overview of US regulations and spending limits on public funding, see <www.fec.gov/pages/brochures/pubfund.shtml>.
the 1960s and 1970s in most of Europe, and in France in the 1990s. If party financing were a major instrument in shaping policy, politics in the interest of capital would decline after the introduction of public subsidies.

Yet the evolution of policies across Europe looks somewhat similar to the US from a bird’s eye perspective. Broadly speaking, policy reforms that undermine the postwar social democratic compromises have risen sharply since the 1980s, with simultaneous developments on several fronts. Social protection regimes have been under considerable pressure to adopt more market-oriented principles in order to continue functioning, as Pierson and others have documented (Palier 2010; Pierson 1994, 1996; for an overview, see Starke 2006). Economic activity has been deregulated in many domains (direct state intervention decreased and was replaced by regulatory oversight, for instance) and formerly state-run companies have been privatized, especially in infrastructure services (e.g., Levi-Faur 2006; Thatcher 2007). Corporate governance reforms and financial deregulation have facilitated the expansion and internationalization of financial markets (e.g., Busch 2009; Gourevitch/Shinn 2005; Roe 2003).

In a survey of five domains – infrastructure services, firm subsidies, labor markets, pension and health regimes, and capital relations – in eighteen countries, Höpner et al. (2011, 2014) ask whether countries have converged in the manner by which their governments have reformed public policies, replacing direct state intervention with policies based on market principles. By analyzing trends across countries and domains cumulatively, the authors attempt to move beyond the sterile debate in comparative public policy that concludes that while some convergence has happened, important differences remain, depending on what element of public policy one looks at. The data from Höpner et al. provides an interesting picture confirming that a general liberalization trend between 1985 and 2002 is visible for all advanced industrialized economies. To be sure, the United States started off with the most liberal market regime in 1985 and remains in the leading position, closely followed by other Anglo-Saxon countries such as Australia and the UK. France, Italy, and Norway have traditionally exhibited a high level of state intervention and continue to occupy this position comparatively, but their absolute levels have drastically fallen. Sweden and the Netherlands, which were part of this group in 1985, have undergone massive liberalization and are now ranked somewhere in the middle of the eighteen countries (Höpner et al. 2011: 18, Table 1). The cumulative change accelerates rapidly until the late 1990s and then appears to slow down. In addition, there is considerable variation across domains: while pensions and unemployment insurance are, on average, marked by even more state intervention, all other domains are clearly liberalized, in particular infrastructure services, firm subsidies, and financial markets. Höpner et al. distinguish between regulatory liberalization and liberalization that affects monetary transfers from the state, which they call redistributive liberalization. They then distinguish which countries have liberalized most with respect to others. On both dimensions, the liberalization leaders are Sweden and the Netherlands, while the Anglo-Saxon countries and Japan were in fact compara-
tively less radical in liberalization on both dimensions. Italy, Denmark, and Germany distinguish themselves through comparatively high regulatory liberalization, whereas France, Canada, and New Zealand have advanced only on distributive liberalization (to a degree comparable with the Netherlands).

This overview gives us a first glance at trends in Europe, but it is insufficient for analyzing the effects of these policy changes on economic equality. Certainly, the general lesson of the globalization literature is likely to hold: liberalization, understood as the reduction of domestic state intervention, tends to favor those that are mobile, who can move more easily to the most advantageous regime. This can explain differences within labor categories, but it also highlights the structural advantage of mobile capital over labor. It would be a mistake to conclude that liberalization inevitably leads to greater inequality in Europe, however. This point is very effectively made by Kathleen Thelen (2014) in an analysis that sometimes resembles Hacker and Pierson's analysis of drift. Studying the politics of liberalization and their effects on inequality, she shows that inequality increases in countries such as Germany even in the absence of liberalization. In coordinated market capitalism, the successful defense of traditional institutions can lay the foundation for rising inequality because of the dualization of the labor market and the declining coverage of negotiated bargaining between employer associations and trade unions. Similarly, she argues, some forms of labor market liberalization are compatible with high levels of social solidarity.

Understanding the precise effects of policy change on inequality thus requires that we look at the details of reform in individual policy domains. Still, we can reject the hypothesis that followed from the analysis of party funding. European policies in the interest of capital gained momentum in the 1980s and 1990s, despite the inverse trend in opportunities for private party funding.

What is more, in Europe as in the US, many of the policies at the center of these accounts were actually advocated by parties on the center-left rather than the right, and a considerable literature has tried to come to terms with this paradox. Unlike Hacker and Pierson, who attribute US Democrats' shift to the right to the power of organized groups, analysis of the European cases points to a variety of factors. Cioffi and Höpner (2006) show that financial market capitalism was enabled in Germany, France, Italy, and the United States through corporate governance reforms driven by the center-left parties, who faced conservative parties eager to maintain traditional state capitalism, banking institutions, family-based capitalism, and managerialism. The authors show that in all four countries, reforms were driven by international pressures and the alignment of left parties with minority shareholders, who were insufficiently protected against major economic actors and banks. As one would generally assume, center-right parties were more closely aligned with banks and major business associations, all of whom had an interest in preserving their dominance by maintaining the status quo. In this scenario, financial market reform was introduced to constrain the traditional economic elites on
the left. The redistributive consequences of financial market capitalism with respect to labor did not enter the party political discussion as much as Cioffi and Höpner would have expected, so they simply conclude that their strategy was incoherent from a theoretical perspective. With respect to organized business influence, we nonetheless find the rather traditional fault lines: banking elites and managers were opposed to reform and found themselves represented – unsuccessfully – by center-right parties. In other words, we see similar policy results in Europe and the US in the expansion of financial market capitalism, but party leanings did play an important role, with substantial differences between left and right, even if the result is somewhat paradoxical.

With regard to social protection systems, there is evidence from Europe that recent dynamics are also not due to business capture, with its concomitant pressure on policymakers to “sit on their hands” (Hacker/Pierson 2010b: 173). In a comparative analysis of pension reforms in Germany, France, and Switzerland, Häusermann (2010) shows that governments actively adapt their existing pension regimes to new demographic and economic pressures. These reforms, which have included both cutbacks and the expansion of coverage to certain categories, can only be understood by their cross-class alignments. In particular, she shows that labor as a category has become very heterogeneous, with great divisions according to skill level, gender, mobility, and cultural preference. It is thus flawed to assume that parties on the left will take a default position that favors the industrial labor class, as previously assumed. Politics that may seem like they are in contradiction with traditional left-wing positions do not signal that left-leaning parties have abandoned labor. Rather, labor and the constituency of leftist parties more generally have been profoundly transformed in postindustrial societies. Häusermann’s work urges us to understand the transformation of party constituencies before judging whether party elites have abandoned their base in favor of organized groups.

In sum, the general trend of policy evolution in Europe is comparable to the US: financial markets have been facilitated on many fronts, and social protection systems are less universal today and more oriented toward market principles, albeit with considerable variation across countries. As in the US, support for these changes in Europe came from both the left and the right. However, the mechanisms cited in the analysis of US politics are unlikely candidates for comprehensive explanations in Europe. First, intermediary institutions such as trade unions maintain a political role in most of Europe, and the countries where these are weakest – France, for example – are not those where business groups are most influential. Second, the role of private funding in politics is strikingly different in all countries except the UK. If private funding were a transmission mechanism for political preferences, moreover, business interests should have seen their influence decline with the introduction of public funding between the 1960s and the 1980s. This is not in line with the policy evolution we need to explain. Third, comparative public policy analyses urge us to find more multivariate responses than just the rise of organized interests. International pressures and demographic changes are often cited as triggers for reform, and most analysts do find that party competition and alignments
have a significant effect in Europe. The constituency bases of the various parties appear to be transforming profoundly, however, and we need to account for these changes before assuming that party elites have abandoned voters.

Disorganization in finance

Of course, there are good reasons to think that party elites may be increasingly removed from voters (e.g., Katz/Mair 1995; Mair 2013). But much of the literature on this question points to internal party dynamics and external pressures such as European integration, rather than capture through organized interests. In his recent book, Streeck (2014) vigorously argues that a major cause of the demise of democratic politics has been the structural impact of financialization, which imposes a straitjacket on debt-dependent politicians of all stripes. He even refers to financial markets as the “second constituency”: in competition with, and mostly dominant over, traditional electoral constituencies. Indeed, finance appears to be pivotal in explaining the politics of inequality. But again, even the financial sector’s great strength does not fit the image of “politics as organized combat” (cf. Hacker/Pierson 2011: 274–275). The next section will argue that the financial industry is still very far from acting as a coherent organized group.

This last point is important, because many recent accounts of the financial crisis in the US reflect Hacker and Pierson’s perspective and point to the undue political influence of the financial industry in the run-up to the crisis (e.g., Johnson/Kwak 2010). But describing their political strategies as “organized combat” is misleading, because a substantial part of their political success depends neither on organization nor combat.

In a recent book (Woll 2014b), I have documented the collective action of the financial sector by comparing the national bailout plans that were devised in the US and five European countries in late 2008 and early 2009. As extraordinarily costly and highly redistributive public policies, bank bailouts are commonly assumed to result from pressure exerted by financial institutions upon their governments (e.g., Reinhart 2011). Although individual banks will certainly try everything they can to obtain a government bailout when they are on the verge of collapsing, this is by no means a collective enterprise. On the contrary, it is most often the government that urges financial institutions to organize politically and to contribute to formulating a government response that can help stabilize the financial sector. Obtaining a collective private sector response that could serve as a blueprint for a national bailout plan was an objective in the United States, Germany, France, and Denmark. It required coordination among individual institutions in order to determine the extent of their involvement and the price they would be willing to pay for government intervention. For the government, the advantage of collective action by the industry is that business can then shoulder part of the expenditures of a bailout plan. But only in France and Denmark did the financial
sector actually end up working together with the government on a crisis response. In the United States and Germany, individual institutions engaged in some weak compromises – for instance when the major US investment banks all agreed to participate in the first Toxic Asset Relief Plan recapitalization (TARP) – but these quickly fell apart. Even in times of crisis, when financial institutions all faced the threat of a collapsing economy, differences between institutions created important disincentives to coordination and political organization (see also Culpepper/Reinke 2014). In addition, given the massive consequences of their individual collapse for their respective national economies, financial institutions can anticipate government intervention even if they do not coordinate to facilitate a response. Since coordination implies compromising with the government, financial institutions end up exerting more power through inaction than they would through organized combat.

If we saw that the political action of the financial industry during the management of the crisis had diverged from its behavior during the decade prior, it would give us cues about the run-up to the crisis. Even then, however, we would have reasons to doubt that the coherence of the financial sector is greater than the coherence of business interests in general, as discussed above. Finance is composed of a multitude of sectors, institutions of very different sizes, and a myriad of stakeholders, often with opposed interests (Woll 2014a). The likeliness that different parts of the financial industry will lobby on opposing sides of most policy issues is relatively high. We can thus conclude that in terms of interest group organization, finance is not that different from other business interests. It is unlikely that the financial industry has been able to expand its activities and obtain an increasing part of the country’s wealth merely by sending lobbyists to Washington.

Again we face a puzzle. Finance has clearly established itself as a central element in the politics of advanced industrial societies, and this has had important redistributive consequences, in particular for pre-tax and pre-transfer income. But the image of organized combat is inappropriate. The lobbying of the financial industry, however substantial, is unlikely to explain the success in Washington and Europe of policies that favor capital interests. Even drift cannot account for all of the phenomena observed: in the case of bank bailouts, massive policies were created that favored capital interests in the absence of organized collective action. What then drives these policy decisions, both across countries and over time?
4  Reconceptualizing power

What makes finance special is not how the industry organizes for combat, it is its structural power. The structural features of financial capitalism weigh heavily on politics and are a more likely candidate to explain the rising inequality across advanced industrialized countries. Hacker and Pierson are keenly aware of the importance of structural power (Hacker/Pierson 2002; Pierson 2013). Yet their effort to explain political choices in Winner-Take-All Politics leads them to an agency-focused perspective that ends up downplaying several important aspects of structural power. In the following, I will define structural power and its effects on public policy. I then turn to the cumulative biases created through structural power and discuss how these operate horizontally, across policy domains, and vertically, by changing hierarchies in political authority.

Power has been defined as “the production, in and through social relations, of effects on actors that shape their capacity to control their fate” (Barnett/Duvall 2005: 45). Structural power operates through existing institutional arrangements that put certain actors in privileged positions, allowing them “to change the range of choices open to others without apparently putting pressure directly on them” (Strange 1988: 31). The structural power of business in politics has been analyzed extensively (e.g., Block 1977; Brady 1943; Lindblom 1982) and can easily be extended to the finance industry. Indeed, the financial crisis revived the structural power debate (e.g., Bell 2012; Culpepper/Reinke 2014). In accounts that are radically more focused on the structure of finance capitalism, researchers such as Harvey (2011) and Streeck (2014) have pointed to the dynamics inherent in accumulation regimes and debt-financed government expenditures. For both authors, the rise of finance capitalism is simply incompatible with representative democracy, because of the pressures a capitalist economy puts on politicians.

These pressures are familiar to comparative public policy analysts and are cited in many studies. Market openings create pressures on social protection regimes if and when firms can relocate more easily than labor. The investment decisions of a variety of small private firms are sensitive to political signals concerning taxes, regulatory control, or other forms of government intervention, which can create a race to the bottom among political regimes that are in competition with one another for these investments. An increase in the indebtedness of a government makes it vulnerable to fluctuations in international financial markets, the signaling devices of rating agencies, and other performance evaluations. Relying on the financial industry for economic growth makes government dependent upon the health of these institutions, which may also become too interconnected, too big, or too exposed to fail. These dynamics – capital flight, regulatory competition, dependence on the international financial market, and too-big-to-fail financial institutions – create problematic structures that put pressure on politi-

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2 This definition has the advantage of reflecting a common distinction between “the power over,” i.e., domination, and “the power to,” i.e., capacity. Conceiving of power as the production of both effects simultaneously highlights that one is always defined in relationship to the other.
cians regardless of their party affiliation. They also shape the discourse of the political debates within which policy reforms can take place. It does not matter for our purposes whether these economic constraints are ideational constructs or material realities: what counts is that alternative solutions are most often considered radical, which in turn leads policy actors of very different political leanings to organize their debate around these constraints (Gourevitch 2013: 274).

Structural advantage consequently creates a cumulative bias: once markets become integrated, it is difficult to consider policies that are incompatible with previous decisions. Pierson underlines this temporal dimension of power from a historical institutionalist perspective: “political contestation is both a battle to gain control [and] to institutionalize advantage” (Pierson 2013: 6). Through institutional arrangements, politics distribute and generate power in the future. The cumulative bias of structural advantage can work through several mechanisms. Drift, as developed by Hacker and Pierson (2010b: 170), is certainly one of them. Drift occurs when policymakers fail to update public policies to the changing socioeconomic context, “despite the recognition of alternatives.” But this is not only “due to pressures from intense minority interests or political actors exploiting veto points in the political process”; in some cases, the updating of policies may be discarded because it creates tensions with other policies, or because the updating would require government resources that are simply unavailable. In other words, an exclusive focus on the decisions of individual agents and the potential biases arising from interest group politics obscures the often shared problematic structures that political stakeholders have tried to respond to. This in turn is a result of the structural arrangements and cumulative dynamics in financial capitalism.

A first horizontal dimension of cumulative bias is the effect of a policy decision across domains. In comparative political economy, the literature on the varieties of capitalism has drawn attention to the intricate setup of socioeconomic orders, in particular the importance of institutional complementarities (e.g., Amable 2000; Hall/Gingerich 2009; Hancke/Rhodes/Thatcher 2007; Höpner 2005). Complementarity is a functional term, highlighting that two elements must be combined to produce an outcome. In the comparative analysis of production regimes, studies have shown that wage coordination requires specific monetary policy institutions and that skill formation regimes depend on particular corporate governance arrangements. If one of these domains is reformed, the other will stop functioning adequately. This may or may not be a deliberate decision. In either case, we can see that small decisions about certain key aspects of institutional arrangements can have repercussions across domains, even if these are never directly targeted politically by any of the stakeholders.

A second vertical dimension of cumulative bias happens through the reallocation of political authority as a result of previous policy decisions. As a large body of historical institutionalist scholarship has demonstrated (e.g., Capoccia/Kelemen 2007; Pierson 2013), some policy decisions have important temporal consequences because they re-
allocate political authority and provide the grounds for policy decisions in the future. Examples of such decisions include the delegation of certain domains to independent regulatory agencies or an independent central bank, or the transfer of competences to supranational institutions such as the European Union. Once new arrangements are in place, they operate as a guideline for political decisions and can create rather conspicuous system dynamics. Scharpf (1999, 2012), for example, has demonstrated that European integration creates a bias toward the reduction of barriers (negative integration) rather than the creation of new European provisions (positive integration). This bias results from the simple fact that obstacles to free movement can be challenged in the European Court of Justice, and many provisions in national legislation potentially fall into this category. Conversely, replacing such provisions at the supranational level requires a political consensus among an ever-growing number of member states and is therefore highly unrealistic. A one-time victory over European integration thus creates a systematic bias in favor of mobile factors that is likely to affect a great number of policy domains, even if no interest group ever exerts any pressure on politicians to address these directly.

In sum, the financial industry benefits from structural power, not superior organizational capacity. The rise of finance and the centrality of economic considerations that continue to favor capital interests, investment, and economic growth are the result of a series of small, sometimes even insignificant decisions that create self-reinforcing mechanisms over time.\(^3\) Capital has power because it serves as a principle of policy production—sometimes unchallenged, sometimes mitigated. In a way, the politics of inequality do not result from the power of capital interests at all; rather, they are the consequence of “an intense activity of enrolling, convincing and enlisting” people and policymakers to act in a manner that is internally coherent with these principles (Latour 1986: 273).

Adopting a structural account of the power of financial interests does not preclude a focus on policy production and an understanding of variation across time and space. If we are to analyze this power over time, we should begin by considering institutional choices that shape future choices, in line with historical institutionalism. But the most relevant institutional choices are not just those that allocate political authority. For our current discussion, the reduction of bank-based finance in favor of capital market intermediation, the increasing reliance on international wholesale market funding, and the rise in public and private debt all give crucial indications about potential problematic structures. How much a government will be forced to defer to financial markets in the future is the result of these specific and sometimes incremental choices; they do not necessarily result from pressure groups.

\(^3\) It may be possible that some critical juncture decisions are in fact “big decisions,” even at the outset. But it is insightful to consider that the defense of the free movement principles in the European Union was not perfectly institutionalized through the original treaty provision signed in 1957, but through a now-famous footnote in the Cassis de Dijon judgment in 1979.
Across countries, the extent to which the rise of finance affects public policies will be shaped by the size of the economy and its integration in international financial markets. In addition, the degree to which public policies domains have evolved in a complementary manner can amplify the effects of changes in one area. For instance, the horizontal dimension of cumulative bias will be more marked in an organized market economy like Germany. If business groups succeed in transforming corporate governance in their favor, this will have an immediate effect on industrial relations. Finally, the integration of a country into a supranational governance structure such as the European Union or the eurozone will circumscribe available choices in domestic politics.

Once we have a fine-grained understanding of institutional evolutions over time and across countries, we can begin gauging the domestic political equilibria. As underlined by Hacker and Pierson, the existence of economic groups such as trade unions or NGOs and their role in speaking out for the less privileged is likely to make a difference. Contrary to intuition, a balanced policy approach is also aided by organization on the business side. When financial interests and other economic groups have to coordinate their concerns with the government and with trade unions, they are more likely to engage in compromise and agree to contribute to policy outcomes that are not just in their immediate self-interest. Collective organizations of different stakeholder groups at the domestic level, even on the business side, are thus important in the work against rising inequality.

5 Conclusion

Hacker and Pierson have made an important contribution by redirecting our attention to the actual consequences of politics: the production of public policies and their effects. But their argument against analyses of electoral results and party alignments puts too much emphasis on pressure groups and anecdotal evidence from US politics. In this article, I have tried to show that the idea of “politics as organized combat” gives an inaccurate picture of American dynamics and offers few guidelines for the analysis of European developments. This shortcoming comes from a search for specific agents that are universally responsible for the overall policy orientation. A more structural understanding of the power of finance clarifies that agency is in fact fragmented and shared between political, economic, and other societal actors. Rather than trying to understand their individual decisions at any one point in time, we should focus on the structural features and particular institutional arrangements that shape the individual players’ capacity for action.

Reconceptualizing the power of finance and moving toward a less agency-focused account is important because it affects the policy recommendations that may be included at the end of the analysis. Arguing against the globalization literature that points to “the
economy” as a culprit for major changes in government, Hacker and Pierson (2011: 290) insist that “it’s the politics.” Moreover, it is domestic politics that matter most, so “the future is within our control.” The political reforms necessary to diminish the advantages of the wealthy should focus on (1) reducing the capacity of entrenched elites to act as obstacles, (2) facilitating broader participation among the middle and lower classes, and (3) encouraging organized economic groups that can defend these drowned-out voices (Hacker/Pierson 2011: 303). More specifically, they advocate a reform of filibuster regulations, changes in electoral regulations to increase turnout, and a more supportive landscape for trade unionism, however difficult these might be to obtain.

It is possible that all three of these solutions will have an effect on reducing inequality in America over the long run. As Piketty’s (2014) data shows, inequality in the US is increasing much more markedly than in Canada or Europe, and it would already be an achievement to move the measures of US inequality closer to Canadian or European levels. But the comparison to other countries also indicates that domestic political change may only affect outcomes at the margins. The trends identified in Europe highlight that we should also ask more fundamental questions about the current institutional arrangements of our capitalist democracies. Politics do matter, but less in the day-to-day decision-making equilibrium than in the features of institutional arrangements. We need to understand which institutional arrangements impose the most important constraints on future public policies if we are to analyze how and whether these can be changed.

The answers to these questions will not be the same across countries. The market power of the United States means that the effects of public debt there have not been experienced as an external constraint to the same degree that they have been in Greece and Japan (Schwartz 2009). In Europe, there is increasing interest in whether dismantling European integration would help to reestablish representative democracy at the national level (e.g., Höpner 2014; Streeck 2014). The capacity for governments to find solutions within domestic politics is more or less circumscribed, depending on the size of the country in the global economy, in ways that have been extensively analyzed in the field of international political economy.

Recognizing the interconnectedness of domestic and international politics does not mean that we must be fatalistic about the capacity of capitalist societies to reform themselves. However, change is more likely to be envisioned as a multinational endeavor in countries that rely on both domestic reforms and international agreements. Just as cooperation has allowed markets to expand through trade and investment agreements or coordination in monetary regimes, countries can coordinate to regulate financial capitalism by applying restrictions to business operations, bonus regimes, or corporate governance guidelines. Whether such international agreements are sufficient to keep finance capitalism at bay is an open question. But the financial industry in the United
States is probably more nervous about the application of a harmonized regime of capital requirements through the Basel III reform than a possible change in filibuster regulations or the rise of trade unionism in Washington.

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