Business and the Welfare State: Bringing Power Back In

A Literature Review

Abstract

How do business interest groups influence social policy-making? This paper reviews literature in sociology, political science, and history on the impact of business interests on the formulation of social policy. It identifies two relevant strands: one focusing on power, the other one on preferences. These two strands interact little. It examines key controversies in both strands and shows that central insights of each strand help to deal with problems of the other. The paper highlights two central insights: the role of strategic preferences and variation in business power. One central insight provided by the preference-centered strand regards the role of political constraints in shaping business preferences. The importance of strategic preferences and of adaptation to political constraints puts into question the view of invariant business dominance and points to variation in business power. This insight suggests that power-centered and preference-centered studies alike need to pay more attention to variation in business power and its sources.

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JEL classification: P16 political economy, J58 public policy, D72 political processes
1. Introduction

To what extent do business interests constrain social policy? To what extent do social programs reflect the interests of business or of segments of business? Scholarly interest in the role of business interest groups in capitalist democracies has fluctuated greatly over time as have the theoretical perspectives brought to bear on this topic. Most scholars agree that business interest groups are powerful political actors and influence social policy-making. Yet, scholars interested in the role of business interests in welfare state politics or in politics in general, take very different views on the nature and the influence of business interests in this field. The purpose of this paper is to review the growing literature on the role of business interests in social policy-making.

Studies of business and the welfare state can be grouped into two strands: one dealing with power, and one dealing with preferences. These two strands of research have developed largely independently of each other, without much interaction. The first strand analyses the sources and the scope of business influence in politics, the second, the preferences and positions of different groups of business toward various public policies.

Debates in the 1970s and 1980s on business power in capitalist societies were inspired in particular by Lindblom’s Politics and Markets (1977) and contributions by the neo-Marxist state theorists Miliband (1973 [1969]) and Poulantzas (1969). In contrast to the standard pluralist view of politics prevailing at that time, these scholars 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 governments on investment decisions by private firms (Lindblom 1977). I call this view the business dominance thesis.

These debates on the nature and the determinants of business power in politics waned from the late 1980s on (Block/Piven 2010). However, while scholars lost interest in the issue of business power, interest in business as a political actor returned in a new guise, in the form of research dealing
with political preferences. This new strand focuses on which type of policies employers and other business groups want, and why they do so. It addresses questions like: Which factors shape firms’ social policy preferences? Are some types of firms more supportive of public interventions on social policy issues than others? (section 3).

This paper reviews both strands. It discusses the main developments and controversies in both strands and reviews empirical findings. Unlike when Linblom published Politics and Markets in 1977, a large body of empirical work that deals specifically with business interests in social policy exists today. What have we learned from these studies about the influence and preferences of business on social policy?

I argue in this paper that the study of preferences needs to reintegrate power, but at the same time has to avoid some pitfalls that characterized the earlier approaches on power. I argue that a focus on variation in business power is the best way forward to achieve both goals. Preference-centered studies often take for granted that business preferences explain policy choices, rather than investigating the influence of business interests empirically, relative to other factors. Understanding what business wants does not tell us how influential business is. Rather than universal business dominance, studies of business influence show great variation in the ability of business to prevail in politics. While the early power-centered literature treated business power as an invariant feature of capitalism and aimed to identify mainly the sources of this power, recent studies suggest that a focus on variation in business power appears as the most promising avenue for future research.

The structure of the paper is as follows: Section two discusses insights from the literature on the sources and the scope of business power. Section three discusses insights and controversies from the literature on the social policy preferences of employers. Finally, the conclusions show how each strand can help to address weaknesses of the other.

2. The scope and limits of business power
The study of business power has a long pedigree in political science and sociology, 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 1971 [1848]). Louis Brandeis, the future US Supreme Court Justice, denounced the concentration of power in the hands of big corporations already in 1913 (2009 [1913]). Yet, despite the apparent pervasiveness in public discourse of the view that business dominates politics, interest in 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 1997 [1956]). 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 archival research that corporate elites dominate American political life, focusing on the social policy legislation of the New Deal era (Domhoff/Webber 2011; Domhoff 1996; Domhoff 1990) and subsequent administrations (Domhoff 2013). Domhoff argues strongly that business elites dominate and control policymaking in the US, but his interpretation of the historical record remains disputed for reasons discussed below (subsection 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 UK and the US 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 US 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, like industry (Mizruchi 1989; Mizruchi 1992). Similarly, studies by Burris (2005), Clawson and Neustadt (1989), and Dreiling and Darves (2011) find that interlocking directorates strengthen political cohesion within the business community. These findings point to the role of inter-personal networks in shaping political activities, but 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 sources of power based in personal networks and financial resources, known as instrumental power. 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 the business dominance thesis came from the political scientists Lindblom (1977) and Dahl (1976), and the political sociologists Poulantzas (1978) and Block (1977; 1987).

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 power thesis (Lindblom 1977; Block 1977; Poulantzas 1969), 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 power thesis is theoretically compelling, empirical evidence regarding the extent to which structural dependence actually shapes public policies is mixed. Quinn and Shapiro (1991) tested the impact of several mechanisms of business power on changes in corporate tax rates in the US, 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, like declines in investments, did not. Swank analyzed the responsiveness of corporate tax policies to changes in investments using time-series data for 16 affluent democracies and found that low rates of investments spur corporate tax cuts. The magnitude of the effect found is small, but stronger during periods of economic crisis (1992). Another study, by 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 research on social policy-making as much as one might expect. Much of the work that engages with this thesis aims to endorse, challenge, or modify it through theoretical reasoning (see e.g. Vogel 1983; Marsh 1983; Barry 2002; Dowding 2003; Barry 2003), rather than to test it or apply it to specific policy fields.

This scarcity of research is furthered by the level of abstraction at which the structural power thesis is formulated. Two aspects of the structural power thesis obstruct its empirical investigation: I call them no agency and no variation. First, one important implication of the argument is that business power does not rest on agency. Policy makers will try to anticipate what business needs because they are aware of their dependence on investments. There is, therefore, an “unspoken deference … to the needs of business” (Lindblom 1977). The state serves capitalist interests “regardless of whether capitalists intervene directly” (Block 1977). While this may be true, the assumption in this account that business power is structural and constant impedes empirical research for two reasons. First, forms of influence that stem exclusively from structural power do not involve agency, and thus provide no obvious object for empirical observation. Second, classical statements of the business dominance thesis treat structural power as a constant, invariant feature of capitalism. The assumption of invariance makes arguments about structural power difficult to test with comparative methods.
2.1 The sources of variation in business power

The assumption of invariance of business power contrasts with research that documents great variation in the capacity of business to influence policy choices. Globalization and global capital mobility are the factors perhaps most often associated with increased influence of business, in particular big multinational corporations (e.g. Crouch 2011; Fuchs 2007). Some studies of government-business relations in the United Kingdom find that globalization has strengthened the capacity of business to influence British politics in the fields of social policy (Farnsworth 2004; Farnsworth/Holden 2006), public service delivery and corporate governance rules (Wilks 2013).

Economic crises are another factor that may affect business power. David Vogel (1989; 1996) has studied the impact of business groups on environmental policy and consumer protection in the US from the 1960s to the mid-1980s. He finds that the relative influence of business varied greatly over time. Vogel explains this cross-temporal variation with changes in the public perception of the long-term strength of the US economy. Political receptiveness to the interests of business increases when the public perceives the economic prospects as weak: It is during periods of economic crisis that concerns about the possible negative effects of state interventions on investments are strongest (Vogel 1989).

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 US (1935). 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). 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). Campaign finance rules are another important factor that affects business influence: Kuhner (2014) shows how decisions by the US Supreme Court have strengthened business influence by easing restrictions on corporate donations.

A further dimension of variation concerns 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) Culpepper’s analysis implies that pluralist and business dominance accounts could both be right: it depends on what type of policy issues one looks at.

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 disinvestments 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 UK and Germany, Bernhagen has shown that varying degrees of informational advantage by business actors affected their ability to get what they want (Bernhagen 2007; Bernhagen/Bräuninger 2005).

Studies using an ideationalist approach focus on persuasion and the capacity of business actors to shape beliefs about the effects of policy choices on investments. Bell and Hindmoor (2013) 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 2013). 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 2013) (cf.Bell 2012).

To conclude, empirical studies have focused on a range of determinants of variation in business power. These studies make the structural dependence thesis appear as too determinist. Business does not always get what it wants. At the same time, these studies also show that business power is a concept amenable to empirical investigation, if properly conceptualized. The abstract debates of the 1970s on whether business dominates politics ended because the conceptualization of
business power as a constant and inevitable feature of capitalism impeded empirical research. The debate ended in exhaustion, rather than a genuine resolution of the underlying issues. The new strand of research on business power that emerged in recent decades includes the promise of avoiding these pitfalls and provides more empirically grounded insights into the conditions of business power, as well as its limits.

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 focused on the role of business in welfare state development. The attention in this strand is on preferences, rather than power. What do business interest groups want and why? Under what conditions do different types of firms support or oppose various social policy options? Interest in these questions stems from perceived deficiencies of the then prevailing power resource approach, which sees welfare state programs as a product of the power of labor and labor-affiliated parties (Hicks 1999; Korpi 1983). Business-centered studies document cases of support from within the business community for expansionary reforms, but interpretations of the causes and the scope of business support for social policy remain disputed.

This section reviews some of the main lines of argumentation found in this literature and critically evaluates the strength of empirical evidence. I argue that the controversy over the nature of employers’ social policy preferences found in this literature stems from an analytic agnosticism toward the question of power, outlined in the previous section. This field has made great progress in understanding the nature of business preferences, but at the same time lost sight of the question of power. I argue that this inattention to power prevents research on preferences from settling questions of impact of business actors on social policy-making.

In the field of social policy, business interests usually mean employer interests, that is, interests related to labor relations, although sometimes they also derive from product market interests, like the interests of financial firms related to the provision of private pension products (e.g. Naczyk 2012).
constraints of a review article force me to limit my focus. I will focus in this section on studies dealing with employer interests with regard to public programs of social insurance, traditionally seen as the core of the welfare state. The review excludes employer interests in other fields of social policy, like education, health care, as well as product market interests, which overall play a lesser role in the social policy field. The next subsection will briefly review research on the validity of the conventional power resource view of employers’ preferences, before turning in the subsequent subsections to evidence on several alternative perspectives.

3.1 The power resource perspective: social policy as decommodification

In many studies operating with a power resource perspective the assumption of business opposition to social policy remains untested. Yet, proponents of the power resource approach can point to two mechanisms to substantiate that assumption. First, if financed by payroll taxes, as is often the case, public social programs raise labor costs and, ceteris paribus, reduce profitability. Any expected benefits of these programs to business would thus need to outweigh these cost increases if employers are to support their adoption.

Second, social benefits decommodify labor, that is, they reduce workers’ dependence on employment by raising the reservation wage. Employers thus need to fear decommodification to reduce labor supply and to erode labor productivity. Following this logic, Esping-Andersen for instance argued that employers will oppose decommodifying social policies (Esping-Andersen 1990; cf. also Korpi 2006). A modified version of the power resource view of employer preferences suggests that the degree of employers’ support for social policy is inversely related to the degree of decommodification. When faced with limited policy options, employers will prefer the least decommodifying one (cf. Paster 2012b).

Historical studies provide substantial evidence for the validity of this view with regard to the adoption of unemployment insurance. Research on Germany has documented that fear of an erosion of work incentives was a major concern that shaped employers’ stances on unemployment insurance:
when faced with limited policy options, they always backed the least decommodifying option (Paster 2011; Brosig 2011; Führer 1990). Similarly, an analysis of the social policy positions of international business organizations by Farnsworth found that erosion of work incentives and increase in labor costs were the paramount considerations that shaped the positions of the organizations studied on issues of social protection (Farnsworth 2005).

Disconfirming evidence exists as well: Studies of employers’ usage of early retirement programs since the 1970s show that employers can also cherish the decommodifying effects of social protection. If faced with a need to downsize their workforce, employers often welcome the decommodifying effects of social policy, in particular where union strength and labor market regulations obstruct labor shedding (e.g. Hassel 2007; Manow/Seils 2000; Mares 2003a). More recently, the growth of the low-wage segment of the service economy 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 (Pancaldi 2012a; Hassel/Schiller 2010). In short, there is considerable evidence from historical studies that fear of decommodification is a major motive of business to oppose social policy, but studies of the practice of early retirement also show that firms can develop an interest in decommodification. The power resource view of employer preferences therefore needs qualification: While in general firms fear decommodifying policies to reduce labor supply, when labor shedding is a priority, decommodification is welcome.

3.2 Sectoral Cleavages and the Fragmentation of Business Interests

Some studies have challenged the power resource view of employers’ preferences and have emphasized the positive contributions of employers to the adoption of social programs. These accounts often highlight divisions within the business community and the centrality of cross-class alliances as the political foundations of welfare state programs. According to this perspective, often referred to as the “fractions of capital” thesis, conflicts between segments of industry are more important than class
conflicts in the formation of the social compromises that underpin institutions and policies. The literature suggests several fault lines that are contended to divide business. In this section, I review evidence on two such fault lines most frequently argued to matter in social policy: skills and firm size.

3.2.1 Skills

One variant of the fractions 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 (Estévez-Abe/Iversen/Soskice 2001; Iversen 2005; Melling 1994). 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).

Evidence for skills as a source of employers’ social policy positions is contradictory. Studies that argue that skills motivated employers to back social protection are challenged by 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 with skilled labor supported contributory public social insurance, while small firms not dependent on skilled labor opposed any form of social insurance (Mares 2003a; Mares 2001; Mares 1997). Mares’ study however leaves the outcome over-determined, as large firms are also those that rely most on skilled labor. So, one does not know whether the observed variation is due to skills or due to firm size. In addition, Mares argues that support from employers for public social programs reflects strategic preferences, that is, support for a second-best choice (Mares 2000). This argument appears to contradict the skills argument, as strategic and genuine preferences cannot simultaneously be at work. If strategic interests led employers to back social policies, a genuine interest in these policies must inevitably have been absent.

Some 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 consistently favored less restrictive variants of employment protection legislation (Emmenegger/Marx 2011). Paster finds that German employers’ backing of the adoption of unemployment insurance in 1927 was motivated by strategic preferences, rather than expectations of benefits for skill formation (Paster 2012b; Paster 2011). Similarly, Brosig finds that German employer federations’ opposition to unemployment insurance remained unchanged from the 1950s to today. Of particular importance 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 do thus clearly conflict with any putative intention to protect specific skills (Brosig 2011).

To sum up, not much robust evidence exists to date for the thesis that skills motivated some employers to back higher levels of social protection. No doubt exists that employers have an interest in skill investments, what is disputed is whether they see public social policy as a tool to achieve these investments. The availability of occupational social policy and negotiated employment guarantees as alternative tools to attract and retain skilled workers may explain why firms do not typically see public social policy as a tool toward this end. However, relatively little research on the skills thesis exists for the recent period, as most relevant research is historical. One exception 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 to retain workers with valuable, but temporarily redundant, skills motivated employers to back this policy (Pancaldi 2011). The skills thesis may thus be potentially valid for the recent period, but further research would need to identify the conditions under which it is.

3.2.1 Firm size

Another variable often argued to divide business interests is firm size. Small firms are seen as those most opposed to public social policies, while larger firms are seen as more willing to accept social policies. The presumed reason for these differences are that large firms have greater capacities to make
use of social policies for the purpose of personnel management, and that they are more likely to have the financial resources need to absorb the costs of social policy (Martin 2000; Mares 2003b; Mares, Pancaldi 2012a).

Evidence that firm size matters is more substantial compared to that for skills. Large firms are well documented to be those most inclined to provide company welfare. They expect company welfare to strengthen the loyalty and productivity of their workforce; to attract and retain skilled workers; and historically also to repress unionization and strikes (e.g. Trampusch 2006; Meier/Recktenwald 2006; Rein/Wadensjo 1997; Shaley 1996; Melling 1992; Bridgen/Meyer 2005; Naczyk 2012). 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 company welfare programs in the late 19th century (see e.g. Kocka 1984; Melling 1992; Gordon 1991; Klein 2006; Jacoby 1999). Despite similar motives, the spread of company welfare varies greatly across countries. In the US, company welfare expanded in the post-war period (Jacoby 1999; McCarthy 2013), while its role in European countries remained much more limited (Jackson/Vitos 2001).

Some studies document that firm size affects employers’ preferences also on 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; Ebbinghaus 2006; Pancaldi 2012a). 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; Paster 2012b).

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 to be those most dissatisfied with existing institutions (Hassel 2007; Schroeder/Silvia 2003; Thelen 2001; Silvia 1997; Streeck/Hassel 2003). 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). Conflicts between large and small firms have diverse reasons: For Germany, Silvia and Schroeder find that greater competitive pressures explain why small firms are more likely to leave employers’ associations, an indicator of dissatisfaction with high labor costs (Silvia/Schroeder 2007). Other studies attribute small firm opposition to social policies to postindustrialisation. 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 levels of productivity and greater need for flexibility (Pancaldi 2012a; Pancaldi 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, like skills, labor productivity, and sectoral location. This makes it difficult to disentangle causal mechanisms. Second, 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).

3.3 Organizational structures as a source of 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 2012; Paster 2014; Nelson 2012; Arisi 2012). Informed by earlier research on neo-corporatism (e.g. Molina/Rhodes 2002; Schmitter/Streeck 1981; 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 (e.g. Martin 2006; Arisi 2012). 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).

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; Nelson 2012). Behrens (2011) and Paster (2014) focus, instead, on differences in associations’ decision-making rules, like 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, unweighted systems smaller members. Compulsory membership reduces, but does not eliminate, the veto power of discontented 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 be the case, depending, inter alia, 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. They are compatible with all of the micro-level models discussed earlier.

3.4 Political accommodation and strategic preferences

One of the most important insights from research on employers’ preferences concerns the centrality of political accommodation and strategic preferences. When business representatives intervene in social
policy making they often do so with the goal of influencing the details of a policy they perceive as inevitable to be adopted, rather than because they see the adoption of that policy as furthering their interests. Studies investigating the role of strategic accommodation distinguish conceptually between two types of preferences: genuine and strategic. Genuine preferences are what an actor perceives to be in its best interest. Strategic preferences are lesser evils, promoted by an actor when it realizes that the genuine preference is not feasible.

Studies use several tools to identify empirically whether support is genuine or strategic. The analysis of statements by business representatives found in historical sources, like minutes of meetings and internal memos of associations, is crucial, but often insufficient for a conclusive answer, as researchers do not necessarily find a “smoking gun.” In addition, statements made in public often reflect strategic motives, and can for this reason not be taken as an accurate representation of genuine preferences. To adjudicate between strategic and genuine support studies do not simply rely on what actors say, but on research designs that are intended to ensure valid inferences. Two aspects are particularly important: First, studies analyze the policy options on the agenda. How do the policy proposals put forward by business representatives compare to those of the other major actors? If business backs options of social protection less generous than those backed by other powerful actors, business support can be inferred to have been strategic.

Second, issues of timing of business interventions are central to the adjudication between competing hypotheses. Did business groups set the agenda for the adoption of a social program, or, alternatively, did they become active only in response to initiatives for reform by other actors? If business groups set the agenda for the adoption of a program, their support for that program can be inferred to be genuine. If they get involved only in response to initiatives of other actors, they do so most likely because they want to influence the policy, not because they believe that the policy furthers their interests.

Yet, despite these analytical advances, controversy continues on the relative weight of strategic and genuine support. Research on the political processes that lead to the social policy legislation of the New Deal period in the US, most notably the Social Security Act (SSA), provided
the main catalyst for this controversy. From the late 1970s on, a line of argument in the relevant historical literature emerged that suggested that “the New Deal was a creature of business demands,” as Colin Gordon put it (1994), rather than the product of state autonomy or of mobilization by social movements or an elite response to social protests. The ambition of early proponents of this view, such as William Domhoff, was to document the degree of dependence of the American state on business interests, as well as the conservativism of US public policy. Domhoff argued that “[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). More recent versions of business-centered New Deal explanations, like that of Peter Swenson, use similar empirical observations to argue against explanations that build on class conflict (Swenson 2002).

Those business-centered explanations of the passage of the Social Security Act that highlight genuine preferences focus on the role of those large corporations that had adopted company welfare programs from the late 19th century onward, a segment within American business variously labelled the welfare capitalists, the corporate liberals, or the corporate moderates (Berkowitz/McQuaid 1978; Jacoby 1993; Gordon 1991).

Simplifying greatly, one can summarize the narrative of these accounts as follows: The Great Depression had turned company welfare from an asset into a burden and had induced a preference among the welfare capitalists to spread the costs of welfare to the entire economy, to create a level playing field, and to scale back on their own programs. Before the Great Depression, the welfare capitalists had invariably defended their company welfare programs against state interventions and had opposed public social programs: They insisted that welfare is the responsibility of the firm, not the state (see e.g. Tone 1997). Some welfare capitalists were also anti-union, “welfare capitalism killed unions with kindness,” as Jacoby put it (1999).

The Great Depression altered the welfare capitalists’ stance toward state welfare. The Depression made company welfare programs financially unsustainable and cutthroat competition from non-welfare firms became a problem. Many welfare capitalists cut back on their programs and

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1 (2000) reviews competing explanatory models of the New Deal reforms.
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, as company welfare now became a supplement to public welfare. Archival studies have documented the involvement in the drafting of the SSA of a handful of individual welfare capitalists and policy experts tied to them, through the Business Advisory Council set up by the Roosevelt administration (e.g. Gordon 1994; Berkowitz/McQuaid 1978; Domhoff 1996; Jacoby 1993; Swenson 2002; McQuaid 1982).

These studies thus document that during the Great Depression the welfare capitalists developed a genuine interest in public welfare. Yet, critics have questioned the more general argument of business dominance in the political processes leading the New Deal social policy reforms. These critiques show how a decline in business power as a result of the political, social, and economic changes of the 1930s created the conditions that moved the issue of public welfare on the political agenda in the first place (Amenta/Parikh 1991; Skocpol/Amenta 1985; Hacker/Pierson 2002). They argue that the implicit counterfactual of business-centered accounts is implausible, that is, the counterfactual 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 policy-making.

These criticisms build on two related empirical observations: First, 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 opposed public social insurance (Skocpol/Amenta 1985; Amenta/Parikh 1991). Allen analyzed contributions by major capitalists to the 1936 presidential campaign and found that four of five capitalists who contributed to the presidential campaign contributed to the Republican Party, which suggests that most major capitalists opposed the New Deal (Allen 1991).

Second, critics note the role of strategic accommodation. While the welfare capitalists had a genuine interest in public welfare, the vast majority of politically active business representatives either opposed the SSA or participated in the political process in order to water down specific provisions.
The later holds in particular for the national business federations, the National Association of Manufacturers and the Chamber of Commerce, whose demands aimed mainly at reducing the costs of social insurance to firms, as Hacker and Pierson have shown (Hacker/Pierson 2002). Their involvement reflected a strategic response to a loss in power.

To conclude, one important insight we gain from the controversy over the role of business in the adoption of the SSA is the importance of strategic adaptation. It is correct that the welfare capitalists had a genuine interest in public welfare, but the economic and institutional conditions that induced that preference are historically contingent and defy generalization. In contrast, the insights gained on the role of strategic accommodation are of greater generalizability, as studies on other cases have identified similar processes of adaptation (Mares 2000; Paster 2012b; Broockman 2012). The role of business in politics is not only causative, it is also adaptive.

3.5 Adaptation and preference change

While the studies discussed in the previous section deal with adaption 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 (e.g. Hassel 2007; Thelen 2001). The causal arrow here goes from institutions to preferences: Firms adjust their production strategies to existing institutions and, as a result, become dependent on these institutions. In coordinated market economies this should result in increasing support over time to institutions that underpin coordination, whereby public social policies are seen as supporting coordination. I call this view the increasing support thesis. According to this thesis, employers’ preferences thus explain the continuation, rather than the adoption, of social programs.

The empirical evidence for this hypothesis of increasing employer support for social policy is mixed. Evidence of eroding employer opposition exists for some institutions in some countries, but contrasts with evidence of a neo-liberal turn among employers in other areas and 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, even during the postwar period. Some evidence in favor of the preference thesis comes however from German industrial relations. Works councils and board-level codetermination are institutions whose adoption employers had opposed but over time have come to support, as survey data of executives show, even though the business federations continue to campaign for a curtailment of these rights (Paster 2012a; Höpner/Waclawczyk 2012).

Concerning wage bargaining, an erosion of support is well documented, 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 (Thelen 2001; Thelen/Kume 2003; Hassel 2007; Wood 1997). Others point to swelling campaigns from within German business for deregulation and flexibilisation, questioning the view that business serves as an obstacle to change (Kinderman 2005; Menz 2005; Paster 2009; Speth 2004; Gammelin/Hamann 2006).

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 support declined (Paster 2012b). Yet, to the extent that the German model persists it does so due to remaining employer support, rather than due to the strength of unions, as the organizational strength of unions is weaker. In other words, there is some genuine support for collective bargaining among German employers, which supports the increasing support thesis if we take a long-term view, even though the extent of this support has declined in recent decades.

The increasing support thesis contrasts with research that documents a turn by business groups in many countries from the 1970s on to a pro-market and anti-welfare agenda. For the United States, several archival studies have documented an invigoration of business campaigning against high taxes, social spending, and labor-friendly state intervention more broadly, notably from the 1970s on.
(Waterhouse 2013; Hacker/Pierson 2010a; Mizruchi 2013; McQuaid 1982; Daguerre 2014), although conservative business groups fought against New Deal liberalism from the outset (Phillips-Fein 2010; Fones-Wolf 1996). While the increasing support thesis does not predict increasing support in liberal market economies, other studies observe similar trends also in Sweden and in Germany. For Sweden, Blyth and Ryner have documented how the national business federation there shifted its strategy from the 1970s on to ideational contestation, with the goal of delegitimizing the institutions of the Swedish model and their distributive outcomes (Blyth 2001; Ryner 2002). For Germany, studies by Kinderman (2005), Menz (2005), and Speth (2004) document a similar intensification of efforts by employers’ associations to delegitimize existing institutions and their outcomes through a “war of ideas,” even though, unlike Swedish employers, German employers’ associations did not abandon corporatist bargaining.

In short, research shows that preference change does happen, but is not unidirectional. Cases of business reconciliation with institutions originally adopted against business opposition exist, but the broader picture since the 1970s is one of a pro-market turn of business groups in many countries. This increasing ideational assertiveness of business groups correlates with structural changes in economy and society: the rise of social expenditures in recent decades combines with increased cost competition due to globalization and a simultaneous rise in the structural power of business due to global capital mobility and economic crisis. 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.

4. Conclusions

This paper reviewed two types of approaches to the study of the role of business in welfare state politics: power-centered approaches and preference-centered approaches. A new scholarly interest in the preferences of business replaced from the 1980s on the earlier interest in questions of business power. This new preference-centered approach has inspired a much greater 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 however come at a price: the narrowing of analytical focus and a neglect of questions of business power.

Like the earlier Marxist accounts of the state, these preference-centered accounts frequently assume that governments act at the behest of business, or of parts of it. They pay little attention to government autonomy or to conflicts between government and business. If conflict plays a role in these accounts, it is conflict between different types of business, rather than conflict between business and government, or other social groups. Government social policy choices are traced back first and foremost to the preferences of different groups of employers. Consequently, what needs explanation from this perspective is why employers want what they want, rather than whether and how they are able to get it. Studies that highlight the role of strategic accommodation however point to the endogenous nature of stated preferences and a need for power analysis to take into account accommodation.

At the same time, the insights on strategic accommodation point also to a need to complement a focus on power with a focus on adaptation. The business dominance thesis, which informed the earlier power-centered studies, conceptualized business as invariably powerful, as an unalterable constraint on what the state can do. A large body of work in the field of welfare state history shows however that business adapts to political constraints and sometimes backs social policies if the alternatives would be worse. This indicates that the role of business in politics is not only one of influence or domination, but also one of adaptation. The extent to which the structural power of business constrains government’s policy choices varies, the limits that dependence on business confidence set on what governments can do are alterable.

Recent studies on business power focus on variation in business power across time (Hacker/Pierson 2010b; Mann 2012) and across policy issues, and thereby avoid the pitfall of no variation that characterized the business power literature of the 1970s. A large body of research points to an increase in business influence or power in recent decades, yet the causes of this secular shift in
the relationship of business and democracy are not fully understood and deserve further investigation. Increased opportunities for global capital mobility has eroded the willingness of business to adapt to national democracies, while at the same time weak growth and high levels of unemployment have heightened political attentiveness to the demands of business. In addition, business groups in many countries turned to ideational campaigning to shape political debates. Yet, the overall picture that emerges from scholarship on welfare state history is that business dominance is not an unalterable or intrinsic feature of capitalism but a product of specific political, economic, and institutional conditions that vary over time and across countries. Combining the analysis of preferences and of power will allow us to make progress in understanding these conditions.

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