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THE POLITICAL POWER OF BUSINESS:
STRUCTURE AND INFORMATION IN PUBLIC POLICYMAKING

Thesis submitted in partial fulfilment of the requirements for PhD in Political Science, Trinity College Dublin

July 2005

Patrick Bernhagen
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Declaration

I declare that this thesis has not been submitted for a degree at this or any other university and that it is entirely my own work. Parts of Chapters 4 and 5 have been published previously in Bernhagen (2003a) and in the context of research undertaken with Thomas Bräuninger (Bernhagen and Bräuninger 2005). Parts of the argument in Chapter 3 have previously been published in Bernhagen (2003b). I agree that the Library may lend or copy the thesis upon request.

Patrick Bernhagen
Summary

In this study, I analyse the conditions that lead to the political power position of business in democratic capitalist systems. Overcoming traditional dichotomies of structural economic determinants versus corporate political action, I investigate how in their political strategies business lobbyists employ privately held information about the costs and effects of public policy in the real world. I argue that business’ privileged access to policy-relevant information is an important power resource alongside more commonly researched resources such as money and organisation, membership in elite networks, or the prerogative over allocation and investment. In a review of the main theoretical strands of scholarly work on business and politics: (neo-)pluralist group theory, network approaches, theories of ideological domination, and structural power theories – I evaluate the main contributions that these approaches make to explaining the sources and limits of business political power.

I build on game-theoretic analyses of lobbying as strategic information transmission and use theory-informing data from interviews with lobbyists at German and Irish trade associations to develop an informational-structural model of business political power in democratic capitalism. The model predicts the conditions under which elected political decisionmakers modify their policy pledges to accommodate business’ political preferences, or override business’ lobbying messages and honour their pledges. I describe the model non-formally and derive sample equilibria for the most interesting scenarios of strategic interaction between a fully informed business lobbyist and an imperfectly informed policymaker. The results show that the structural power of business over public policy is contingent on the size of reputation costs of business in relation to its material costs of lobbying, as well as on the policymaker’s reputation constraints from policy commitments and campaign pledges relative to the costs from adverse effects of policy.

I evaluate this model in the context of qualitative evidence from two case studies of business lobbying on environmental policy and financial services regulation in Germany and the UK. Analytical narratives present detailed evidence from real-world lobbying scenarios that is consistent with the predictions of the model. I also quantitatively analyse several observable implications of the informational-structural model of business political power, using micro-level data on the personal characteristics and interac-
tion with lobbyists of over 1,400 members of the parliaments in eleven European countries. I test how far the reputation of lobbyists in the eyes of policymakers affects the frequency of lobbying and explore the extent to which policymakers are willing to take lobbying messages serious depending on whether the message comes from business or non-business groups. I find evidence that, *ceteris paribus*, business lobbies left-leaning parties with reduced frequency, implying that business lobbyists gear their lobbying strategy towards its effects on short-term policy outcomes as well as the lobbyist's long-term reputational interests. The analysis also shows that the lobbying messages of business carry more clout than those emitted by non-business interest groups, even if all groups lobby with equal frequency.

Furthermore, I extend the empirical analysis to the macro-level by formulating hypotheses about the informational and economic-structural determinants of environmental regulation in 31 countries. I hypothesise that, at a given level of salience of environmental issues, policymakers enact stricter provisions for environmental protection in countries in which the informational constraints on policymaking are weak. Using OECD and World Economic Forum data, the central empirical implications of the informational model receive partial support in a simultaneous equation model of the causal relationships between economic voting, information asymmetry, environmental issue salience, and environmental regime strength. My results suggest that the informational asymmetry between business and policymakers can compromise the capacity of governments to implement comprehensive and long-term objectives in a well-coordinated manner and that democratic policymaking is inherently susceptible to a pro-business bias when business' political interests diverge from non-business interests.
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1 Introduction

In August 2004, Forbes magazine ranked the then chairwoman and chief executive of Hewlett-Packard, Carleton Fiorina, among the ten most powerful women in the world (MacDonald and Schoenberger 2004). With this ranking, Fiorina has found herself in the company of top politicians such as the US national security adviser and future secretary of state, Condoleezza Rice, the vice-prime minister of China, Wu Yi, and the US Supreme Court justice, Sandra Day O’Connor. In fact, among the top ten women Fiorina is the only one who is not a politician. The other six are Sonia Gandhi, president of the Indian Congress Party; Laura Bush, US ‘First Lady’; Hillary Rodham Clinton, US senator; Ruth Bader Ginsburg, another US Supreme Court justice; Megawati Sukarnoputri, president of Indonesia; and Gloria Macapagal-Arroyo, president of the Philippines.

What is it that makes these women so powerful? How is it possible to compare the relative power of people in such different spheres of life such as business, government, and jurisprudence? Eight of the women are involved in the authoritative making of collectively binding decisions, concerning matters like the launching of military attacks against other countries (Rice), the meaning of the highest law of the US (Day O’Connor), or ruling the world’s most populous country (Yi). Fiorina’s job, by contrast, is to manage the production and marketing of commercial machines and consumer goods such as personal computers, network servers, and inkjet printers.

In this thesis, I attempt to answer the question of how it can be possible for Fiorina’s activity to be deemed comparable with the power held by people who actively participate at top level in governing the world’s most powerful nations, complete with nuclear weapons and gigantic armies. At a closer look, this question leads to a trio of questions that are frequently raised by citizens, political activists, and social scientists:

Do the owners and managers of business enterprises have political power above and beyond the portion of power they are due by virtue of being citizens of a democratic country?
If the answer to this question is 'no', then no further questions follow and the discussion ends. If the answer is 'yes', two further questions usually follow:

Where do they get their power from?

And,

Are they justified in having it?

Often, these questions are fervently fought over, and they are seldom answered satisfactorily. The first question in particular used to be very controversially debated in Western industrialised societies until about fifteen years ago. The question of whether or not businessmen and women wield disproportionate power was vociferously debated. I suspect that the reason for this is that the third question – do they deserve such power? – looms constantly in the background.

Critics of the capitalist way of organising social and economic affairs between human beings tend to hold the view that the power of a businessman or woman that goes beyond their power to cast a vote in an election or referendum or stand as a candidate in an election, is a reason for serious moral concern. If, so the argument goes, we are supposed to live in a society of equals, then surely it cannot be justified that some of us have significantly more power than others (cf. Dahl 1989, 106-118). Unless, that is, this power is conferred on them by some conscious act of empowerment that is, in turn, usually intended to ensure some degree of democratic accountability. It seems that defenders of the capitalist system sensed that the third question would be a difficult one to deal with, and therefore focussed on the first one. If they could make a convincing argument that businessmen and women – short: capitalists – have no greater political power than any other person, the two remaining questions, in particular the ethical third one, would be irrelevant.

Demonstrating that the capitalist mode of production and distribution is in no way inimical to political equality would also enable its proponents to counter most other major defects claimed by critics, typically from the left of the political spectrum, of the capitalist market economy. In particular, its defenders could show that for anyone with a
concern for the fundamental values that have informed the organisation of Western
societies since the Enlightenment – liberty and equality – capitalism was the only game in
town. Communism, the major competitor as politico-economic systems go, appeared to
fare much worse than capitalism with regard to individual liberty. But as long as critics
from the left were able to claim that the communist systems scored better on equality, a
fundamental ideological challenge to capitalist democracy remained. It was, therefore,
important to successfully refute the notion that capitalists wield unequal political power.
If this could be achieved, communism might still be claimed to perform better on social
and economic equality, but because of the authoritarian character of their political sys-
tems, the communist societies of the former Soviet Union and Eastern Europe were pro-
foundly unequal politically. By contrast, while people’s economic and social circum-
stances in the West may be characterised by a degree of inequality, at least politically
they would all be equal.

With the disappearance of the communist systems from the world’s political map in the
late 1980s and early 1990s, the erstwhile competition between politico-economic sys-
tems ceased to provide a reason for demonstrating the political equality of citizens in
capitalist democracies. The concomitantly uncovered true extent of the atrocities, hu-
man rights abuses, and numerous other failings of the communist regimes in the former
Soviet Union and Eastern Europe was such that just about any other politico-economic
system would be deemed preferable by default. For the same reason, the critical voices
that pinned down the shortcomings of capitalist democracy by way of juxtaposing its
performance to utopian or socialist blueprints went suddenly silent. Capitalist democ-

cracy has factually and almost overnight become the only game in town, before the
ideological debates about political equality have been resolved (cf. Weffort 1992, 92).
In fact, the debates themselves seem to have been rendered obsolete by history as the
people in the countries undergoing transitions from communism have written ‘democ-

cy’ and ‘market’ on their banners (Przeworski 1991, 8).

In this situation of easy victory, which even prompted some to proclaim that history has
come to an end (Fukuyama 1992), the ideological defenders of capitalist democracy
have ceased to see the need to demonstrate how the institutions favoured by them – rep-
resentative democracy, private property, and the market – live up to the Enlightenment
promises of freedom and equality. Instead, it has now become possible to recognize un-

3
ashamedly that unequal economic power may imply unequal political power. Excuses no longer seem necessary, as few people would find anything objectionable in the fact that a maker of inkjet printers is up there in the power league with cabinet members of the US federal executive administration and Supreme Court judges among the top most powerful women. Politics, Lasswell wrote almost 70 years ago, is about who gets what, when, and how (Lasswell 1958 [1936]). Few would doubt today that in this sense business is a successful political actor (cf. Wilson 2002).

Thus, the factual question concerning the political power of business has been replaced by a common sense understanding that business fares rather well when it comes to securing favourable political outcomes. Concomitantly, the other two questions have also become relegated to the background. Consider the third question: does Fiorina, as a businesswoman, deserve to be as powerful as she is? Put differently, where does the legitimacy of her power derive from? In representative liberal democracies, people hold that procedures and institutions convey legitimate power to individuals and outcomes. For democrats and democratic theorists, election by popular vote constitutes the archetypal mechanism of conveying legitimate power onto individuals. Looking at the ten most powerful women in the Forbes ranking, we find that four, Gandhi, Rodham Clinton, Sukarnoputri and Macapagal-Arroyo, have attained their powerful positions by some form of democratic electoral process. Three more (Bader Ginsburg, Day O’Connor, and Rice) have reached their position of power by appointment according to constitutionally determined procedures. While not being directly empowered through popular vote, the offices of Supreme Court judges and cabinet members derive some mediated democratic legitimacy by virtue of the fact that appointments are made by other high-ranking elected officials who are themselves held accountable by popular vote. Furthermore, there are legal restrictions on their tenure, and their appointments have to conform to meticulously designed legal procedures that confer legitimacy through due process (cf. Luhmann 1997). ¹ Thus, seven out of the ten most powerful women have come to occupy positions of power through procedures that embody crite-

¹ Power to nominate the judges is vested in the president of the US, and appointments are made with the advice and consent of the Senate.
ria of due process and some democratic legitimacy. The remaining three cannot claim such legitimising procedures. Yi is powerful because of a successful career in the ruling party of a dictatorship, while Bush came to power by virtue of being married to the US president. How did Fiorina become powerful?

Fiorina is a business executive in a liberal and democratic country of the free, Western world. Ironically, the mechanisms that brought her to enjoy her reputedly powerful position are no different than the ones that elevated the vice-prime minister of China above the heads of a billion peasants and workers. According to Forbes, Fiorina spent nearly 20 years at AT&T Corporation and Lucent Technologies Incorporated. She worked as an executive vice-president of computer operations for Lucent and oversaw the formation and separation of Lucent from AT&T. At Lucent, she was also president of global service provider business and president of consumer products. In short, she pursued a standard, yet highly successful, top-level bureaucratic career in the world of capitalist business enterprise. As in the cases of Bush and Yi, at no point in Fiorina's career did a member of the adult population of her country cast a free, democratic vote over her appointment. Nor was her appointment made by a democratically elected official. Nor are there any orderly procedures in place by which the fairness of her ascent to power can be evaluated. Like the vice-prime minister of China Fiorina has climbed up a strictly hierarchical career ladder because she has been deemed reliable, efficient and acceptable by oligarchic bureaucrats, who themselves had attained their positions by the same mechanisms before her. As Moene put it in the early nineties, 'while democratic governance is occupying new territory in Eastern European politics, most firms in the West are still governed like command economies in miniature' (Moene 1993, 400).

Thus, it seems that we have little reason to believe that Fiorina's power enjoys the same legitimacy as the power of the Philippine president or that of a Supreme Court judge. It is possible, however, that Fiorina's power is of a different kind than that of the politi-

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2 There are, of course, powerful social limits to the factual equality of people's chances to hold these offices. Despite the enormous differences between countries like, say China and the US, all ten women have a number of striking social characteristics in common. All of them come from rather wealthy and educated family backgrounds and enjoyed excellent third-level education in the finest institutions of higher learning in their respective countries. None of these women would be 'average' by any meaning of that term.
cians and judges. After all, unlike Sukarnoputri or Macapagal-Arroyo, Fiorina does not wield command over armies. Nor does she aim to take part directly in the making of the law of her country, as Ghandi does, or in the legally binding interpretation of that law, as the Supreme Court judges do. Fiorina’s power appears unrelated to the making of authoritative, collectively binding decisions made by politicians and Supreme Court judges. Perhaps, therefore, the kind of power she enjoys is of a fundamentally different nature than that held by most of the other women in the list.3

The pollsters at Forbes do not seem to think it is, however. They attempted to ‘compare the incommensurable’ by creating a ‘power scorecard’ (MacDonald and Schoenberger 2004). This card contains a numerical score for each candidate defined by her title and résumé, the size of the economic sphere in which she wields power (a business corporation is measured by its capital stock, a foundation by its endowment, and a country by its GDP), and the number of global media mentions (ibid.). The scoring seems to be informed by the understanding that title, office, and career path, together with media presence and the wealth of the organisation one works for, are all indicators of the same underlying phenomenon of power. In particular, the Forbes investigators make no distinction between the power of a market actor and the power of a political actor.

We can distinguish two dimensions of power wielded by business executives like Fiorina. One dimension concerns the power of the owners and managers of capitalist enterprises within the organisations. Here, as Moene points out, command-style hierarchies continue to prevail, forming islands of authoritarian power in otherwise democratically organised societies. Dahl (1985, 113-4) describes this poignantly:

Like the government of the state, the government of a firm makes decisions that apply uniformly to all workers or a category of workers: decisions governing the place of work, time of work, product of work, minimally acceptable rate of work, equipment to be used at work, number of workers, number (and identity) of workers laid off in slack times – or whether the plant is to be shut down and

3 The nature and legitimacy of the power ascribed to the ‘First Lady’ Laura Bush are different yet again and certainly deserve more thorough treatment than what can be provided in the present context.
there will be no work at all. These decisions are enforced by sanctions, including the ultimate sanction of firing.

The authoritarian power structures within economic enterprises, however, are justified by the normative underpinnings of capitalist democracy. The claim of owners and managers to rule dictatorially within their firms can be justified by reference to the efficiency-enhancing aspects of that form of governance, through invocation of natural rights to private property, or the hint at the fact that most employees would not care much to get involved in the running of the firm they work in. Most justifications involve a mixture of these elements (Dahl 1985, 111-35). And while one may agree or disagree with these justifications and their implications for the way economic enterprises are governed, few people would disagree with Hobbes’ succinct formula that ‘[t]o have servants is Power’ (Hobbes 1996 [1651], 62). Capitalist democracy at any rate makes no pretence to intra-firm democracy.

The other dimension of the power of capitalist leaders concerns the possibility that their non-democratic economic power may have significant implications for decisionmaking in the public sphere—a sphere that in capitalist democracies is supposed to be governed democratically (Bowles and Gintis 1986, 86-7). The claim that economic power in some sense means political power is at the heart of disputes concerning the sources of the political power of business. This is the second question mentioned at the beginning: where does the political power of capitalists stem from?

1.1 The long and uneasy marriage of capitalism and democracy

The question about the sources of business political power as well as that concerning the justification of such power is more relevant today than it ever was. This is despite the fact that both questions have been around for some time—at least since politics as we understand it today was brought into being with the French Revolution. In the middle of the nineteenth century, for example, Marx and Engels claimed that the power of capitalists is essentially political power when they wrote that ‘[t]he executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie’ (Marx and Engels 1977 [1848], 223). 130 years later, Charles Lindblom expressed concern about the political power of capitalists in his study Politics and Mar-
kets, concluding that ‘[t]he large private corporation fits oddly into democratic theory and vision. Indeed, it does not fit’ (Lindblom 1977, 356). And democratic theorists from different quarters are concerned that, if capitalists wield disproportionate power over political outcomes, then political equality, democratic accountability, and the legitimacy of public policy are greatly undermined (Dahl 1989, 324-28; Green 1985).

But how can capitalists pose a threat to democracy if everywhere we look, capitalism and democracy go hand in hand? Friedman reminds us that, historically, there has been no society ‘that has been marked by a large measure of political freedom and that has not used something comparable to a free market to organize the bulk of economic activity’ (Friedman 1962, 9). Moreover, capitalism has been portrayed as a necessary condition for the development of democracy. According to Lipset, the chances for both the emergence and the survival of democracy increase with the rise of the overall level of socio-economic development of a given society (Lipset 1959, 75), and no other socio-economic system has proved a match for capitalism as far as the production of social wealth is concerned. Indeed, historically, whenever market economies have been successful over a period of time, pressure for democratisation has not taken long to ensue (Berger 1992). Schumpeter (1976 [1942], 297) even characterised modern democracy as ‘a product of the capitalist process.’ Indeed, for liberals like Schumpeter, Hayek and Popper, capitalism and democracy both embody the enlightenment foundations of European civilisation complete with a commitment to individual freedom (cf. Amadae 2003, 20).

It is important to keep in mind, however, that the modern impetus to democratisation came with republican forms of government that were primarily developed by aspiring commercial classes (Carver 2003, 253). And the early republics and liberal democracies in Europe and North America meant a form of government where ‘the many’, though generally equal to each other in ruling and being ruled, were ‘the few’ in relation to the population as a whole (ibid.). While, as Carver points out, broadening access to political power from monarchs to aristocracies and then to republican ‘burghers’ was one thing, widening participation in politics to ‘the many’ as a genuine majority of the adult community was a much larger project. It has taken the better part of two centuries to secure at least some degree of this expansion of civil and political rights for the benefit of substantial groups of the human population (Carver 2003, 254). All along, capitalists, and
many liberals, have watched the processes of democratisation with scepticism, and often with outright hostility. And they had good reason to be sceptical. Macpherson points out that the gradual extension of the franchise went hand in hand with significant curtailments of capitalist property rights, not least through the emergence of the welfare state (cf. Macpherson 1973, 148). For Bowles and Gintis, this is indicative of a fundamental tension between property rights and personal rights (Bowles and Gintis 1986, 32).

Moreover, as Therborn suggests, the first two major waves of democratisation in Western Europe may have been causally related to the two world wars. According to Therborn, the two wars were causally related to democratisation in two ways: firstly, by effective support through external allies that the excluded classes found in their domestic struggle for political rights, and, secondly, by the fact that the ruling elites often had to trade in political concessions to the lower classes in order to gain support for national war mobilisation (Therborn 1977, 17-23). Thus, it seems that, despite the strong historical correlation between capitalism and democracy, the relationship between the two systems is not necessarily a harmonious one.

1.2 Capitalist democracy in an age of globalisation

In recent years, concern has been voiced that, no matter what disproportionate political power capitalists may have already enjoyed in the past, their privileges may now have been further boosted as a result of increasing global integration of factor and goods markets. Increasing numbers of citizens, politicians, and scholars suspect that the globalisation of the economy may further limit the range of policy choices available to democratically-elected leaders. A dominant theme in public debate and political and economic research alike is the possibility that, from the 1980s onwards, the increasingly unrestrained movement of capital between nations is reducing the policy autonomy of all governments and strengthening the political bargaining power of capitalists (Whitehead 1992, 157). Under these conditions, according to Caul and Gray, political parties may find it more difficult to aggregate citizen preferences in a consistent manner; their policies become increasingly similar, and the partisan character of government decreases (Caul and Gray 2000, 208). It is argued that coping with globalisation requires flexible domestic political structures, which in turn entails an orientation towards small, rule-bound government, making social-democratic, Keynesian demand-side management and ‘big government’ less and less feasible. Because large companies and transnational
corporations have the option to shift or out-source production to low-wage countries, union bargaining power relative to employers is weakened (Rodrik 1997, 23-25). The need for nation states to create profitable environments for investors may induce them to forgo necessary but costly policies, thus leading to a 'race to the bottom' of social, environmental, and health and safety-related standards between countries (Rodrik, 1997, 53). Furthermore, the tax burden shifts from mobile capital to immobile labour, which leads to a redistribution of wealth from the poor to the rich, and to a potential rolling-back of the welfare state due to sharpened constraints on governments' ability to raise revenue.

Globalisation, thus, presents a serious dilemma as it results in increased demands on the state to provide social insurance against the calamities of an open economy while simultaneously reducing the ability of the state to perform that role effectively (Rodrik, 1997, 53). If globalisation is leading to the erosion of the power and capacity of the state, this poses serious problems for democracy, since the state is the primary locus of democratic arrangements in the modern world (Cerny 1999, 19). Again, it should be pointed out that the problems are all but new. 'Flight of capital', for example, has been a recognised constraint on democratic politics since the end of World War I. It has been claimed to play a causal role in the political crises of the interwar period, leading ultimately to the overthrow of the liberal governments of France in 1925, and again in 1938, as well as to the development of a successful fascist movement in Germany in 1930 (Polanyi 2001, 25).

While there is thus little consensus over whether the political position of business has been strengthened in the process of globalisation, there is even less consensus in the literature over what the sources of the political power of business are. According to Huber (2002, 26), questions of the political power of economic actors remain among the most important to be asked about politics and government. Held (1992) finds that the degree to which the modern state enjoys 'autonomy' under various conditions is under-explored. This is particularly worrying if we consider that questions of business control over public policy are central to questions of party responsiveness and partisan convergence (Caul and Gray 2000, Pennings 1998). Moreover, scholars have recently come to suspect a structurally induced 'corporate bias' at the supranational level of European Union (EU) politics (Chari and Cavatorta 2002, Lewis and Abraham 2001). Fortunately,
the degree of business political influence varies from one capitalist nation to another (Wilson 1990a), as well as within the same political system over time, and depending on attributes of the businesses and policymakers in question (Martin 1989, Prechel 1990). And because there is variation, it is possible to develop causal explanations of these variations which, in turn, will help us to understand of the sources and limits of business political power.

1.3 Conflicting paradigms of action and structure

Analyses of the political involvement of business in democratic capitalism usually follow of two paradigms. They either tend to view business' political power as a matter of *intentional* interference, or as a problem of *non-intentional* domination. In the first category, we find studies of special interest politics, lobbying, and policy networks, which treat business as a political interest group. Within this paradigm, the subject matter under study is one or another form of corporate political action. By corporate political action, scholars usually mean the entering of the political arena by firms to purchase action or inaction from public officials (Getz 1997, 38). Research in this area concerns the resources at the command of business and its interest organizations for political action, encompassing the fields of party and campaign finance (Wright 1996), corruption (Kang 2002), the personal and functional ties between economic and political elites (Mills 1956, Domhoff 1998), and business' sway over public opinion (Page, Shapiro and Dempsey 1987). To this list, we should add business involvement in major political crises. When other political strategies have failed, business has been known to resort to the ultimate means of contributing to the violent overthrow of governments that enact policies contrary to its interests (Block 1977, 19). This may involve the support of military coups against democratically-elected government and their replacement with fascist regimes, as happened in 1973 in Chile, or with the direct rule by the business elite, as was attempted unsuccessfully in Venezuela in 2002. Of course, this also includes attempts to overthrow non-democratic regimes such as the recently failed coup by a group of British investors against the government of Equatorial Guinea.4

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Within the paradigm of business political power as intentional interference, Fiorina
could be said to be powerful because of her ability to donate large sums of money to the
campaign funds of her favoured political party or candidate. She is also well-positioned
to bribe civil servants or legislators into currying her favour. She could use her connec­
tions with members of the political and economic elite dating from her undergraduate
years at Stanford, her business school time at the University of Maryland, or resulting
from her work collaboration with other highly skilled people in the information and
communication technology sector. Fiorina could run advertisement campaigns to pro­
mote her company’s image in the public eye, or even to improve the reputation of her
entire sector, or that of American industry in general. And she could even sponsor a
mercenary army mandated with overthrowing the government of a Third-World country
that spoils Hewlett Packard’s profit prospect in some way or another, although that is
extremely unlikely. What makes Fiorina powerful is the fact that at any one of these ac­
tivities she will be much more successful than most other citizens of her, or any other,
country. And it is very likely that she, more or less regularly, engages in one or more of
these activities (with the exception of military coups) or employs people to do so on her
behalf.

While research within the paradigm of intentional interference focuses on more or less
readily observable political action, the explanatory success of these approaches is mixed
(Baumgartner and Leech 1998, 106-108; Smith, 2000, 115-41). To some, this lack of
consistent findings is not surprising, given that individual firms who anticipate benefits
from corporate political action less than the expected costs have reasons to refrain from
becoming politically active, either individually (Keim and Zeithaml 1986), or collect­
vatively (Olson 1971 [1965]). Moreover, there are limits to the extent to which policy­
makers can be responsive to corporate political action. After all, they must take into ac­
count that voters would generally be dissatisfied with policymakers’ selling out to big

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5 While many large companies sustain Political Action Committees (PACs) for the collection and
channelling of corporate donations to politicians, Hewlett Packard, like many other firms in the Infor­
mation and Communication Technology sector, does not currently have a PAC in place.
The other paradigm rests on the widely accepted, but empirically elusive, claim that the owners and managers of private enterprises enjoy a structural power position that enables them to secure political outcomes even if they abstain from political action. This claim has been formulated specifically with respect to the feasibility of the social democratic reform project of building capitalism with a human face, if the pun on Alexander Dubček’s slogan is allowed. It is not very contentious that, even in the prosperous and stable democracies of Western Europe, there are ‘powerful constraints’ on the extent to which ‘viable’ forms of social democracy can stray, if not from dogmatic neoliberal models, then at least from the broader confines of liberal capitalist democracy (Whitehead 1992, 156). But the problem of structural constraints concerns more generally the problem of government ‘efficacy’, i.e., the government’s ability to respond to its citizens and to solve pressing problems (cf. Aldrich 1993, 272).

In an unlikely concurrence of Marxist theories of the state in capitalist society and the standard wisdom of neoclassical economics, this paradigm prioritises the non-intentional, structural constraints on the policymaking capacities of elected officials. Various known as the ‘structural dependence of the state on capital’ (Przeworski and Wallerstein 1988), the ‘business confidence’ factor (Block 1977), or the ‘structurally privileged position of business’ (Lindblom, 1977), this theory asserts that the negative effects of redistribution on the share of profits consumed by capitalists lead to disincentives for investment, followed by the whole appendage of sluggish growth, unemployment, and decreasing tax revenue. In anticipation of these effects and their electoral and fiscal consequences, policymakers tend to carefully avoid any policy that affects the revenue prospects of business, and instead are concerned to maintain business confidence by all means. As a result, the political preferences and economic interests of business enjoy disproportionate consideration in the formulation and implementation of public policy, even if business abstains from direct political activity (Przeworski and Wallerstein 1988, 12). It is easily seen how this, if true, poses serious problems for democracy. For, as Budge and Bara point out, ‘[T]he essential democratic requirements for

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6 Because there are different interests of business and fractions of capital, even explicitly pro-business governments might produce policies that would unintentionally harm some business interests while favouring others. Thus, even where the grip of the business confidence factor on public policy is very strong, some level of business political activity would have to be expected.
an electoral mandate policy are that there is some difference between parties so that electors can make a choice; and that once elected the party will do more or less what it promised to do when in government' (Budge and Bara 2001, 9, original emphasis).

From this perspective, Fiorina’s position of power would not require her to take any action whatsoever that would be considered political. Instead, it suffices for her to perform her role as the chief executive of a transnational company, making the usual decisions about investment and disinvestment, hiring and firing, researching and developing, etc. Because the outcomes of these formally non-political decisions are of importance for citizens and policymakers, political decisions that in any way affect Fiorina’s job will almost always be made with a view to her reaction to them. A safe way for policymakers to avoid undesired decisions by Fiorina is to gear policy so as to please her as much as possible. At the most general level, policymakers have strong incentives to create a climate in which capitalist enterprise flourishes. For, as Fiorina said when announcing 15,000 job cuts within a period of eighteen months in 2002 and 2003, ‘if growth rates decline, obviously we would need to take appropriate action.’

Plausible as theories of structural domination may sound, they have their own serious problems. From an empirical vantage, if the structural power thesis holds, we should rarely witness policy change over time that overrides business’s policy preferences. However, instances of business failing in the policy struggle are frequently observed (Mitchell 1997, Smith 2000). Moreover, structural dependence theories cannot accommodate the ubiquitous political activity of business. The question inevitably arises: why, if their interests are automatically taken care of, capitalists would waste time and money on politics in the first place. Moreover, research on the covert sources of business influence over public policy is plagued by fundamental methodological problems. As Mitchell (1997) points out, while we can plausibly argue that the structural power of business exists, it is much more difficult to find direct evidence of structural power than is the case with the more readily observable instruments of power, like making campaign contributions or lobbying. According to Quinn and Shapiro (1991, 868),

'[searching for business structural power is much like using a water-witching stick to dowse a field for underground water.' They add that the complexity of this task is immensely exacerbated by the fact that the political field is usually flooded with the overtly manifest exercise of business power.

### 1.4 Linking action and structure: the power of being informed

While it may be useful to study the political role of business through the lenses of one of these paradigmatic frameworks, problems arise from the fact that doing so usually hides important insights from the ‘other side’. For the analysis of real-world politics, however, either approach can lead to useful knowledge. Moreover, the predominance of the two paradigms has led to a situation in which an important aspect of public policymaking has become obscured, viz. the fact that policymakers are confronted with huge informational problems concerning the economic consequences of policies as well as their valuation by citizens, while special interest groups have privileged access to the pertinent information (Van Winden 1999, 3). While interest group scholars have recognized that lobbyists can gain credibility and influence in policy-making through detailed factual knowledge of the issues (e.g., Carpenter, Esterling and Lazer 1998, 420), they tend to overlook how the content of this knowledge is applied strategically by lobbyists. Polk rightfully criticises the fact that different approaches mainly exist in parallel, which means that lobbying is either conceptualised as the contribution payments or the transmission of information. However, lobbying often encompasses combinations of these activities (Polk 2002, 1). Because of policymakers' capacity constraints and special interest groups' strong incentives to pool resources and conduct research on issues of concern to their members, interest groups often enjoy crucial informational advantages vis-à-vis policymakers.

If the special interest group in question is business, the informational asymmetry goes even further. Individual firms accumulate knowledge about relevant policy issues in the course of performing their everyday activities (cf. Polk 2002). As a result, business has first-hand access to data on the costs of policy. By communicating all or some of this information to policymakers, businesses can utilize the need for governments to preserve business confidence – the essence of the theory of the structural power of business – as an instrument of their lobbying strategies. Indeed, instances of business elites ad-
vising elected policymakers on how to best deal with the structural constraints on public policy are ubiquitous in daily political discourse. For example, the president of the German Chamber of Industry and Commerce, Ludwig-Georg Braun, recently encouraged the Social Democrat-led government to persevere with its policy of downgrading the country's welfare system. The reforms were immensely unpopular, in particular among the governing party's core constituency, and brought over 40,000 protesters into the streets on a weekly basis for almost three months in 2004 in hundreds of German cities and towns. According to Braun, who represents 3.4m companies, '[t]he country can't afford these benefits any more. Staying the course will add wind to the sails of the economy.' The government followed suit.

Policymakers know, however, that such advice is not given free of the pursuit of business' self-interest; they are therefore sceptical toward lobbying from business. Meanwhile, business, having an interest in maintaining its reputation as a supplier of reliable information, is constrained in its freedom to engage in 'cheap talk' with respect to the ostensible adverse effects of policy. Moreover, only those firms whose revenue prospects would be severely affected by a pending policy shift have incentives to incur significant expenses on costly political action. Given its informational disadvantage, the government can try to infer the credibility of a lobbying message from observing the level of costly political action firms are willing to employ in the lobbying process.

In this view, the informational asymmetry between business and policymakers can seriously compromise the capacity of governments to implement comprehensive and long-term objectives in a well-coordinated manner. For the chairwoman and chief executive of Hewlett Packard, being powerful in this sense crucially involves her ability to predict the impact of public policy on the performance of her firm, her industrial sector, or even the economy as a whole. To the extent that she can muster the resources to support her predictions with costly political action, she will be able to manipulate the beliefs of po-

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9 Note that the notion of government capacity or efficacy employed here is distinct from Scharpf's (1987) concept of 'strategic capacity.' Scharpf's 'strategic capacity' refers to the ability of authorities to achieve complex objectives, which requires endowment with well-defined powers and calculable responsibilities. The adequacy of these endowments are to a good extent matters of finance and staffing, but are not directly related to the informational capacities of special interests.
litical decisionmakers about which of several possible courses of action is best suited to achieve a desired outcome.

1.5 Outline of the analysis

In the present study, I analyse how in their political strategies business lobbyists employ privately held information about the effects of public policy in the real world. I argue that capitalists’ privileged access to policy-relevant information is an important power resource alongside the more mundane resources including money and organisation, membership in elite networks, or the prerogative over investment. To this end, I review the main theoretical strands of scholarly work on business and politics: (neo-)pluralist group theory, network approaches, theories of ideological domination, and structural power theories. Starting from the contradictory observations that aggregate-level political outcomes are biased in favour of business interests, but that business sometimes loses out in politics, I evaluate the main contributions that these approaches make to explaining the sources and limits of business political power (Chapter 3). I find that none of the four explanatory strategies under review provides a satisfactory account of business political power.

Building on game-theoretic analyses of lobbying as strategic information transmission and using theory-informing data from interviews with lobbyists at German and Irish trade associations, I then develop an informational-structural model of business political power in democratic capitalism (Chapter 4). I modify existing sequential models of lobbying by special interest groups to take into account the main characteristic that distinguishes business from other interest groups: its prerogative over investment and allocation, and thereby over some of the most important decisions affecting people’s welfare and the fate of elected political decisionmakers. I then analyse the conditions that lead to the political power position of capital by formulating a signalling model in which business, subject to a mixture of material and reputational constraints, communicates private information about the costs of a pending policy to the policymaker, who must then infer the credibility of this signal from the observed levels of costly political action. The model predicts the conditions under which elected political decisionmakers modify their policy pledges to accommodate business’ political preferences, or override business’ lobbying messages and honour their pledges. I outline the model informally and
derive sample equilibria for the most interesting scenarios of strategic interaction between a fully informed business lobbyist and an imperfectly informed policymaker. The results show that the structural power of business over public policy is contingent on the size of reputation costs of business in relation to its material costs of lobbying as well as on the policymaker's reputation constraints from policy commitments and campaign pledges relative to the costs from adverse effects of policy (Chapter 4).

In Chapter 5, I evaluate the model in the context of qualitative evidence from two case studies of business lobbying on environmental policy and financial services regulation in Germany and the UK. In analogy to the scenarios of the signalling games in Chapter 4, the focus is on critical cases in which elected politicians must consider calling off already-made policy pledges in order to cater to business interests, thus concerning scenarios in which a potentially business-unfriendly proposal has already entered the policymaking agenda. The strategy of studying critical cases provides valuable insights into the underlying mechanisms determining the strength and scope of business structural power that would be black-boxed by a purely correlational analysis. Studying such critical cases is also of substantive importance. As Caul and Gray (2000, 208) point out, 'after elections, the winning parties seek to translate their campaign programmes into policies and implement them. In practice, this move from policy presentation to policy implementation provides an integral bridge in the representation process.' Studies of critical cases can provide litmus tests for what we think democratic elections are supposed to accomplish: having voters embrace a set of policies that elected officials will pursue. In the present context, critical case studies can illustrate how the sequentially rational decisions identified deductively in Chapter 4 manifest themselves in practice.

In Chapter 6, I analyse quantitatively a number of observable implications of the informational-structural model of business political power, using a micro-level dataset on the personal characteristics and interaction with lobbyists of over 1,400 members of the parliaments in eleven European countries. Testing hypotheses about the behaviour of business lobbyists and parliamentarians, I ask how far the reputation of lobbyists in the eyes of policymakers affects the frequency of lobbying. I also explore to what extent policymakers are willing to take lobbying messages serious depending on whether the message comes from business or non-business groups.
In Chapter 7, I extend the empirical analysis to the macro-level, deriving hypotheses about the informational and economic-structural determinants of environmental regulation in 31 countries. I test the informational-structural model of business political power by hypothesising that at a given level of salience of environmental issues, policymakers enact stricter provisions for environmental protection in countries in which the informational constraints on policymaking are weak. As policymakers are expected to anticipate structural-economic difficulties associated with environmental policy when devising their pledges, the relationship between environmental issue salience and actual environmental policy is specified as one of mutual causation. Therefore, I test a simultaneous equation model of the causal relationships between economic voting, information asymmetry, environmental issue salience, and environmental regime strength using OECD and World Economic Forum data for 31 countries.

By developing a model of the informational-structural power of business and evaluating it in the context of data on environmental politics and banking regulation, I hope to contribute not only to the study of interest group politics and lobbying, but more generally to an improved understanding of how politics works in democratic capitalism. Because the bulk of the empirical applications and examples in this study are in the context of environmental politics, I also hope to generate new insights into the political processes involved in the making and non-making of environmental policy. Just like any other policy area, for the formulation, development and implementation of effective and efficient environmental regulation, activists and policymakers need to ask

[w]hich policies and programs have proven to be the most effective and which the least, and why. What impacts have they had, intended and unintended, and what are the implications for policy design? How might policy analysis and program evaluation help in determining which approaches to environmental policy make the most sense in particular situations, and in making changes where appropriate? (Kraft 1996, 158).

In environmental politics, claims about high economic costs of policy and alleged or real trade-offs between the environmental protection and economic performance are endemic. Therefore, environmental politics is an ideal area for the study of the informational and structural foundations of business political power. In the analysis that fol-
lows, I will demonstrate how many false and exaggerated claims that are made by business can be exposed as such, while in other instances the informational privilege of business will ensure that necessary environmental policy will not be implemented. But first, I will introduce and justify the general theoretical approach I take for studying the political power of business, as well as the methodological framework applied for making inferences from empirical observations about the usefulness and verisimilitude of the theory advocated here.
2 Research Design and Methodology

2.1 Rational choice and the duality of structure and action

For the present study I adopt the theoretical framework of rational choice. The theory of rational choice rests on the principle of methodological individualism. Following Elster (1985, 5), by methodological individualism I mean 'the doctrine that all social phenomena – their structure and their change – are in principal explicable in ways that only involve individuals – their properties, their goals, their beliefs and their actions.' The theory of rational choice assumes that individual choices are influenced by reason. This implies that the actors under study possess cognitive abilities and the ability to apply principles of logic to comprehend the world, to connect ends to means, and to use these abilities to make decisions – or choices – between alternative courses of action. The rational choice approach to the study of politics, thereby, proposes that reasoning is not an abstract human ability, but is applied in behaviour, which allows behaviour to be explained and predicted.

Operating within a rational choice theoretical framework involves the acceptance of four further crucial assumptions. Firstly, actors are assumed to maximise individual utility. This means that for whatever it is they want, actors want more of it rather than less. Secondly, individuals' preferences are consistent. This implies that they are able to make a rank-ordering of preferences, and that this rank-order meets the criterion of transitivity: if A is preferred over B; and B preferred over C; then A must also be preferred over C. Thirdly, the choices that actors make are often made under uncertainty. Therefore, the individual calculus of choice not only entails the consideration of preferences over a set of options, but also consideration of the relative likelihood of an action producing the desired outcome. Fourthly, I accept individuals' preferences as they are and treat them as exogenous causes of actions. While the possibility of business having significant influence over the formation of individuals' preferences, I do not, for the most part, deal with this here. However, because a central theme of the present study is the information required to translate preferences into outcomes through actions, I deal with the possibilities of manipulating other actors' beliefs about the world, specifically about how ends are connected to means. Thus, I am interested in the way political actors act strategically under conditions of uncertainty – of their own and that of others.
The theoretical approach to the study of economic, political and social phenomena that has become known as 'rational choice', 'public choice', 'social choice', or 'positive political theory', generally postulates an implicit and inevitable linkage between free-market economics and democratic politics (cf. Amadae 2003). Why, then, one might ask, would anyone want to employ this framework for a critical evaluation of the democratic and moral problems that flow from the capitalist organisation of economic life? The answer is that the rational choice approach to political science is superbly equipped for the study of the structural constraints on public policy that arise from the choices of utility-maximising actors in the institutional framework of capitalist democracy. The approach is equally well-suited for the study of the strategic interaction between businesses and policymakers that takes place in the context of these constraints. Recall that at the core of the theory of the structural power of business outlined above (1.3) is the idea of unintended consequences of behaviour. According to Popper, whose critical rationalism can be seen as providing the philosophical underpinning to the rational choice approach, the study of unintended consequences is the very purpose of social science. Popper maintained that social science should analyse the unintended collective outcomes of individual actions, because 'to believe that much of what happens in society is intended is to engage in conspiracy theory' (Popper 1966, 95). However, if individuals, and the intended and unintended outcomes of their actions is all there is, what room can there be for structural variables?

In the present study, I analyse the unintended consequences for political decisionmaking of the profit-seeking choices of market agents. I move beyond the level of explanation in terms of structural constraints by analysing how strategic actors consciously employ the existence of those constraints in the strategies by which they further their ends in interaction with others. At the level of social theory, few successful attempts to combine structural variables with rational and strategic agency exist. A promising route has recently been opened up by Jessop's critique of Giddens' theory of structuration. For Giddens, social structure is produced and reproduced by the intended and unintended consequences of social actors' actions, which are themselves conditional on the structures within which they take place. According to Jessop, this theory treats social action as essentially rule-governed, repetitive and reproductive of structures (Jessop 1996, 123). While Giddens' theory enables us to view structure as both emergent from human
action and constraining and determining regardless of the agents and actions subject to constraints, Jessop offers a modification of structuration theory to include strategic orientation. Instead of 'mechanically relating' agency and structure to each other in the fashion of Giddens' structuration theory, Jessop (1996, 124) proposes a 'dialectical duality' of structure and agency. This entails studying social structure in 'strategic-relational' terms as involving 'structurally inscribed strategic selectivity.' Likewise, action can be analysed in terms of its performance by agents with 'strategically calculating structural orientation' (Jessop 1996, 123-124). The former term signifies that structural constraints always operate selectively. Rather than being absolute and unconditional, they are temporally, spatially, agency- and strategy specific. The latter term implies that agents are reflexive, capable of reformulating within limits their own identities and interests, and able to engage in strategic calculation about their current situation (Jessop 1996, 123-4).

Three consequences follow from this reformulation of structuration theory. Firstly, social relations can now be divided into a 'structural' moment, comprising of those elements in a given spatio-temporal strategic context which cannot be altered by a given set of agents pursuing a given strategy at a given point in time; and a 'conjunctural' moment, which denotes those elements in a given spatio-temporal strategic context which can be modified (Jessop 1996, 124). This view implies, secondly, that the selfsame structural elements can operate as a constraint for one set of agents and as a 'conjunctural opportunity' for another set of agents (Jessop 1996, 124-5). Thirdly, if structures are thus seen as the relational complexes of social constraints/opportunities, then the analysis of power will involve the attribution to specific acts by specific agents of responsibility for the realization of a specific range of effects in specific temporal and spatial horizons (Jessop 1996, 125). While Jessop may dislike the idea of his account of the duality of structure and action being borrowed for the purpose of clarifying the ontological status of structure within a rational choice framework of social scientific enquiry, it provides a solid operationalisation of Marx's truism that 'men make history, but not in circumstances of their own choosing' (quoted in Giddens 1984, xxi).

For the purpose of the present study, I perceive of structure as the relational features existing between individuals comprising internalised rules, goals and beliefs and the distribution of resources, the totality of which constitutes an essential part of the envi-
ronment or context which a rational actor will have to take account of in making decisions and devising strategies for action. For any actor A, a crucial element of this contextual environment will be the likely actions of others that are relevant to the success of A’s strategies. Structural parameters can then be modelled so as to systematically advantage some and disadvantage others. At the same time, the ontological and epistemological status of structure is reduced to the specific spatio-temporal horizons of action pursued by specific actors, in the face of possible opposition from others (Jessop 1996, 125).

2.2 Definitions of key concepts

I have already made liberal use of a number of potentially ambiguous terms, including ‘democracy’, ‘capitalism’, ‘business’, and ‘policymaker’. These require definition if confusion is to be avoided at later stages. Other important concepts will be defined as they appear in the course of the exposition.

2.2.1 Democracy

A minimalist definition of democracy is provided by Schumpeter, for whom democracy is a political system in which the government is held accountable to popular control by means of fair and competitive elections of the rulers (Schumpeter 1976 [1942], 269). For Schmitter and Karl (1991, 76), such a system allows citizens to act indirectly in the public realm through the competition and cooperation of their elected representatives (Schmitter and Karl 1991, 76). They add that, during the intervals between elections, citizens can seek to influence public policy through a wide variety of other intermediaries, such as ‘interest associations, social movements, locality groupings, clientilistic arrangements, and so forth’ (Schmitter and Karl 1991, 78). For Budge and Bara, furthermore, the raison d’être of these mechanisms is the normative expectation that they bring government action ‘into line with popular preferences’ (Budge and Bara 2001, 8).

10 In regarding actors as reflective, strategically calculating subjects oriented to the structural conjunctural complexities of action contexts, Jessop explicitly allows that actors reflect on their identities and interests (Jessop 1996, 125). His strategic-relational view of the structure-agency duality thereby allows for the modelling of the active and reflexive remaking by actors of their own identities and interests. In this sense, Jessop’s approach goes beyond the treatment of individuals’ preferences as fixed and instead allows for the endogeneity of preferences and identities. In the present study, no such relaxation of the assumption of exogenous preferences is undertaken.
For the purpose of the present study, I follow Schumpeter and define democracy minimalistically as a political system in which the government is held accountable to popular control by means of fair and competitive elections of the rulers. This allows us to recognize a political system as democratic if it fulfils the minimalist criterion, but enables us further to evaluate political systems as 'more' or 'less' democratic in proportion to the extent to which they effectively bring government action in line with citizen preferences.

2.2.2 Capitalism

By capitalism I mean an economic system in which scarce resources and the means of production are owned privately; and where decisions about their allocation are a private prerogative (Przeworski and Wallerstein 1988, 11), exercised hierarchically within firms, as well as decentralized and voluntarily in markets.

2.2.3 Business

In the analysis that follows, I regularly and indiscriminately refer to the owners and senior managers of commercial business enterprises, as well as to the organisations, firms and corporations themselves, as 'business'. For most of the issues dealt with in this study, the firms and their owners and managers are in structurally equivalent positions vis-à-vis the policymaking organs of the state (Mizruchi 1992, 43-47), so that use of the term 'business' as a singular noun is warranted. I will use more differentiated terminology whenever the context of the analysis requires this.

2.2.4 Policymaker

Analogous to the use of the summary term 'business', the level of abstraction at which most of the analysis takes place does, for the most part, not require careful distinctions between government agencies such as legislators, regulators, executive ministers, or civil servants. For the issues I deal with, the crucial common element of all these actors is that they directly partake in the authoritative making of collectively binding decisions or the discretionary implementation of such decisions. I will therefore generally refer to any of these as 'policymakers'. Again, more differentiated terminology will be applied where the context of the analysis indicates that this is appropriate.
2.3 Testing a model at two levels of analysis

Rational choice theories, like other deductive theories, cannot be exempted from empirical tests against observed facts (Bennett and George 1997). In order to identify the sources and limits of business political power, I develop a theoretical model that stipulates mechanisms connecting causes and effects. I define causation as the processes and intervening variables through which some variables effect changes in the value of others. While the notion of causal mechanisms is often explicated in terms of physical causal processes, it is also applicable to social processes, including intentions, expectations, information, political decisionmaking, strategic interaction, and so on. A cause can, for example, be a purpose-driven action that employs a useful resource to obtain a certain outcome, where the outcome is the effect. According to Little (1991, 15), in the social sciences 'the central idea in causal explanation is that of a causal mechanism leading from C to E.' This mechanism consist of a 'series of social events' (Little 1991, 16) that are themselves causally related to one another in a causal chain. The causal story connecting these events must be internally consistent with respect to both the temporal succession of the events, as well as their spatial relations. With Lijphart, we can distinguish three methods of empirical research that conform to the notion of causal explanation outlined above: the experimental, statistical and the comparative method. For Lijphart,

'[a]ll three methods [...] aim at scientific explanation, which consists of two basic elements: (1) the establishment of general empirical relationships among two or more variables, while (2) all other variables are controlled, that is, held constant. These two elements are inseparable: one cannot be sure that a relationship is a true one unless the influence of other variables is controlled. The ceteris paribus condition is vital to empirical generalisation' (Lijphart 1971, 683).

This logic of inquiry focuses on covariation between an independent variable and a change in the observed value of the dependent variable, thought of as the effect. Note, however, that Little's account of causality above implies that mere covariation between two or more variables does not suffice for a causal relationship to be established empirically. Instead, we must also show how this change in the independent variable explains variation in the dependent variable. Such explanation involves subjecting the observa-
tions in which that correlation appears to more intensive, detailed scrutiny in order to establish whether an intervening process – a causal nexus – exists between the independent variable and the dependent variable (Bennett and George 1997). It is therefore necessary to examine the causal pathway in addition to statistical covariation satisfying the *ceteris paribus* condition in order to demonstrate the linkage between cause and effect.

The present study is guided by these methodological prescriptions in the following way. Based on a critique of the theory and empirical research on business political power and inductive inferences from anecdotal observations and interview data, I formulate a theoretical model of corporate lobbying in democratic capitalist countries. The model provides a causal mechanism by which a number of phenomena provide the reason for when and why business wields effective power over political outcomes. By way of deduction, I then derive hypotheses from this model about the behaviour of political actors at the micro level of inquiry as well as about the compositions of political outcomes at the macro level. Because causality involves both causal *effects* and causal *mechanisms*, its study requires a diversity of methods, of which some are better adapted to the former and some to the latter (Bennett and George 1997). Game-theoretic models are particularly limiting for empirical work, in spite of the relative specificity of their predictions. The reason for this is that each hypothesis derived from a game-theoretic model is actually a joint hypothesis about the assumed social and information structures, the procedure, a particular form of rationality, and usually a specific equilibrium refinement (Kennan and Wilson 1993, 54). Moreover, empirical studies of signalling games have to confront the problem that the information known privately by one of the parties is inaccessible to the researcher (Bresnahan and Reiss 1991).

For these reasons, I successively employ three different types of empirical assessment, following a progression of levels of analysis in increasing abstraction from the level of the individual to the level of aggregate structural data. Firstly, a *micro-qualitative analysis* provides analytical narratives that demonstrate step-by-step how the hypothesised causal factors work their way through causal processes to eventually bring about the expected outcome or not (Chapter 5). Specifically, I evaluate the model in the context of qualitative evidence from two case studies of business lobbying on environmental policy and financial services regulation in Germany and the UK. Seeking out
‘hard cases’ in which the values of theoretically important contextual variables are distinctly unfavourable for the observed value of the dependent variable to occur, I make it less likely that evidence supporting the hypothesised relationship will be found. However, if found, such evidence provides stronger support of that hypothesis, since it was found true in an unlikely context (Mitchell and Bernauer 1998). The two cases also provide the opportunity to further refine the conditions under which business emerges victoriously from policy struggles. They, thereby, serve to calibrate the formulation of hypotheses for quantitative tests in Chapters 6 and 7.

Secondly, a micro-quantitative analysis explores correlations between the individual-level characteristics of policymaker and lobbyists on the one side, and their behaviour on the other. In a game-theoretic analysis with asymmetric information crucial explanatory factors cannot be directly observed (Kerrnan and Wilson 1993, 96). Therefore, I examine how observed fluctuations in lobbying incidence and the weight put on lobbying messages by policymakers can be explained by individual-level characteristics that are directly deduced from the model.

Thirdly, in a macro-quantitative analysis I test observable implications of the informational model of business political power for in across-country analysis of the determinants of environmental regulation. I regress the strength of environmental regulation on environmental issues salience, the strength of economic voting, the degree of business’ control over knowledge production, and a number of control variables. As the relationship between environmental issue salience and actual environmental policy is thus one of mutual causation, I specify a simultaneous equation model to gauge the causal relationships between economic voting, information asymmetry, environmental issue salience, and environmental regime strength. The two sets of quantitative analysis are fully replicable. All the data used for the analyses in Chapters 6 and 7 are in the public domain and freely available. The working datasets used in the present analysis were compiled from these public sources and are available upon request.

2.4 Why environmental politics?
With the exception of the case study on financial services regulation in Chapter 5, the empirical analyses and other evidence provided in this study are taken mainly from the
area of environmental politics. Thus, a few words are in order to justify the choice of this policy area. Environmental policy addresses one of the most pressing problems facing the world today. Households and firms pollute the natural environment too much, mainly because they do not pay a price for the damage they inflict on the environment and thus on the welfare of other citizens in society. The results are well-known to all of us: depletion of the ozone layer, rapidly disappearing rain forests, falling levels of ground water, acidification of the natural environment, global warming, climate volatility, and noise. Environmental policy is intended to contain these problems by establishing standards designed to control the material and energy outputs of consumers and producers to the biophysical environment (Sanchez 1997, 141). It aims to ensure that externalities, or the costs generated by a polluting entity that affect others, are borne by those who produce them.

Throughout the world people increasingly come to believe the environment is in serious decline and they strongly support efforts to reverse the trend (Kraft 1996, 1). Political demands are likely to be focussed first on those forms of pollution that have obvious and immediate health impacts (Grossman 1993). Environmental issues acquire salience alongside other issues, and parties and candidates include corresponding pledges in their policy platforms, thereby increasing the number of policy areas that political parties must address from the 1970s onwards (Caul and Gray 2000, 216). According to some scholars, these new themes become integrated into the established issue dimensions and party systems. In particular, Social Democratic parties are seen as having absorbed many of the ‘new politics’ demands, as distributive and redistributive issues become intertwined with so called ‘non-economic’ issues (Kitschelt 1994). For others (e.g. Inglehart 1997), the new politics issues occupy their own dimension. Whichever view one subscribes to, it is likely that an increasing number and saliency of new issues on the political agenda will produce incentives of one kind or another for parties to take a stand on these dimensions (Caul and Gray 2001, 216). Policymakers seem to respond to this demand not only with words but also by action, as environmental regulation has continued to increase worldwide since the early 1970s. For instance, in the US, pollution abatement control expenditures in manufacturing alone have increased by almost 140 percent between 1979 and 1993 (Berman and Bui 2001, 498).
Because environmental policy primarily aims at reducing negative externalities, it has cost implications for business. At the macroeconomic level, environmental policy is often claimed to reduce industrial productivity. The nexus between the economy and the environment can be summed up into the following factors: the salience of the environmental damage, the cost of avoiding such damage, and the degree to which the harm inflicted by the pollution coincides in its geographic and temporal extent with the political jurisdiction of the bodies empowered to establish property rights and enforce regulations (Grossman 1993). As a consequence, increasing sensitivity to global economic competition and budgetary constraints makes governments wary of any form of regulation which might threaten economic growth, foreign investment, export markets, and employment creation (Golub 1998, 1). Regulations which require firms to reduce emissions, increase recycling, pay more for energy, or switch to more expensive fuels and input materials all raise the final price of their products, with the result that 'green' states lose markets to 'dirty' states that lack similar environmental standards (Golub 1998, 4). Governments are therefore concerned that imposing tough environmental policies could damage their domestic industries, either through loss of market share or by ‘flight of capital’ to ‘pollution havens’ abroad (Ulph 1997). Furthermore, there will be less political will to control environmental damage when the adverse effects are perceived as uncertain or when the costs of that damage will be borne by individuals living in a different political jurisdiction or in a different era (Grossman 1993). In the case of global commons problems such as transboundary pollution or global warming, international relocation of capital would not only be economically damaging but could also damage the environment of the countries that lost capital if the relocation of capital did little to reduce aggregate world pollution (Ulph 1997). Criticising the British government’s target of a twenty-percent reduction of greenhouse gas emissions by 2010, for example, the director-general of the Confederation of British Industry, Digby Jones, recently complained, ‘if our action is not matched by similar efforts from the rest of the world, we will undermine the competitiveness of British companies for no real environmental gain.’ To the extent that governments share this perception of the environment-competitiveness nexus, they are induced to engage in a ‘race to the bottom’ or ‘ecological dumping’ (Golub 1998, 4).

With mobile factors of production in particular, scenarios are well researched in which capital exporting countries have incentives to relax their environmental policies in order to raise the return on domestic capital, reduce the export of capital and, hence, drive up the return it earns on its foreign investment (Long and Siebert 1991, Rauscher 1993). Yet, the negative link is not undisputed. Internationally, environmental pioneers may suffer short-term economic disadvantages in international competition. However, in competition for innovative, forward-looking technologies, early movers in the area of environmental protection will be at an advantage. And countries that succeeded in combining structural industrial change with an effective employment policy have been shown to be more successful in environmental protection (Jänicke 1992, 52).

At the level of microeconomics, however, no matter what the society-wide benefits and even the long-term benefits to the firm may be, environmental policies add considerable compliance costs to firms. This may lead to cutbacks in research and development efforts, limit the innovative efforts of firms, or even endanger their general profitability (Cairncross 1992, 108). As a result, firms will generally tend to emphasise the costs of environmental policy, while underestimating the benefits. Therefore, firms often have incentives to oppose environmental policy which they perceive to place them at a competitive disadvantage. The fact that environmental policies comprise a wide range of measures that differ with respect to their cost implication for individual businesses, sectors and the economy as a whole makes environmental politics an ideal area for the study of the – alleged or real – extent to which the political power of business is based in the structural dependence of the state on capital. Moreover, in this policy area, claims about high economic costs of policy and alleged or real trade-offs between the environmental protection and economic performance are endemic, rendering it ideal for the study of the informational foundations of business political power.
3 Groups, Networks, and Structural Dependence: A Review of Past Research on Business Political Power

All political history shows that the standing of the government depends on the success of its economic policy.

*Harold Wilson, March 1968, quoted in Heath et al. 1991, 159*

3.1 Introduction

Contemporary debates about the political influence of business can be seen as a struggle to reconcile the contradictory relationship between two observations. Firstly, aggregate-level political outcomes appear to be biased in favour of the interests of the owners and managers of capitalist enterprise. Looking at individual wealth and income, for example, this bias is visible in the 'paradox of redistribution.' As a universal characteristic of democratic capitalist societies, rights in the political realm are distributed equally, while the actual distributions of income and wealth are always such that the median falls short of the mean (Breyer and Ursprung 1998; Buchanan and Yoon 1995; Yew-Kwang 2003, 180-182). According to the median voter theorem there exists a unique majority rule equilibrium, which is the choice of the voter with the median preference (Downs 1957). With respect to income distribution, the voter with the median preference is the one with median income (Romer 1975; Roberts 1977). It would thus be in the interest of the median voter to support political parties that promise, and carry out, a redistributive shift of the median income toward the mean. The puzzle then is why the poor, unmatched in numbers and equipped with the right to vote, do not take away from the rich! After all, it was the expectation that the masses would use their ballots as 'paper stones', which gave Frederick Engels such confidence that the peaceful transformation of social institutions towards more egalitarian arrangements was imminent (Przeworski
and Sprague 1986, 1). Students of business political power search for answers to the paradox by assuming above-median incomes of individuals are associated with ownership and/or management positions in capitalist enterprises.

Secondly, because in a formally democratic system public officials must respond to a variety of heterogeneous demands, business does not always get what it wants in politics. There are strong political constraints on the ability of business to translate economic power into political power, notably policymakers' agendas and the perceived legitimacy of business practices (Mitchell 1997, 3). Although the 'veto power' of private investment may be significant, this factor alone cannot guarantee a business-friendly policy response, in particular in periods of crisis and political innovation (Akard 1992, 600). Mitchell (1997, 7) suggests that the question of why business fails in the policy struggle is complementary to the question of why business has so much influence over policy. In this chapter, I will therefore examine the literature on business and politics, widely conceived, for explanations of the sources and limits of business political power.

Early approaches to the study of business' political influence have been remarkably silent with regard to the sources and limits of business political influence. In particular, they have ignored the agendas and incentives of political actors such as parties and policymakers. According to Stigler's theory of the policy formation, for example, policies are 'acquired' by industry and designed and operated primarily for industry's benefit (Stigler 1975, 114). Also known as the theory of interest group capture, or agency capture, this approach portrays business interests as seeking beneficial regulation from governments, i.e., subsidies, control over market entry and price-fixing arrangements, as well as trying to avert policies that impose costs, such as consumer protection measures, environmental regulations, or minimum wage legislation (Meier 1988). Relying Olson's (1971) finding that relatively small groups such as business can effectively organise politically, Stigler expresses little doubt that business can generally expect to get what it wants. Olson has shown that the relatively small number of group members combined with the concentration of benefits from collective action gives business much stronger incentives to organise for political action than larger groups, such as consumers or taxpayers, over whom the costs are widely dispersed. With group power being thus unbalanced in favour of business groups, politicians respond by setting up government agencies to do these groups' bidding. The result is a 'captured bureaucracy' – one that, con-
trary to common political science notions, does not get captured over time, but is designed from the outset to promote special interests (Moe 1997, 462).

Developing this approach further, Peltzman (1976) and Becker (1983) argue that large, diffuse groups can actually have more power – due to voting, for example – than Stigler would have acknowledged. As a result, political outcomes become more pluralistically determined than implied by Stigler (Moe 1997, 462). While Becker and Peltzman pay more explicit attention to the role of lobbying, they too abstract from the individual behaviour of politicians. Instead, Becker introduces an ‘influence function’ which, linking policy outcomes directly to lobbies’ contribution payments, determines the lobbying efforts endogenously. He finds, unsurprisingly, that lobbying increases if the loss of redistribution becomes more important (cf. Polk 2002, 3). Applications of this model continue to dominate research on international trade policy, but are also used in the context of environmental policy research (Pecorino 1997, Damania 1999, Polk and Schmutzler 2002). The problem of this approach, however, is that it generally does not work empirically. For example, comparing air quality regulation across the fifty US states, Ringquist (1993) exploited all the advantages of a most-similar-systems comparative research design. He found that rather than being captured by economically advantaged interests, state governments appear to be responding to the real or perceived environmental threats as well as to technological pressures associated with these industries.

Other approaches to the study of business political behaviour have given a more explicit role to the agendas and actions of political parties and elected policymakers in their analysis of the political power of business in capitalist democracies. These theories can be grouped into four analytically distinct, yet factually interwoven, explanatory frameworks that have produced a variety of often conflicting explanations of the ways in which business attempts to prevent popular demands from encroaching upon its established rights and privileges. Firstly, theories originating from the pluralist analysis of interest group politics study the resources for political action at the command of business (Getz 1997, Keim and Zeithaml 1986). This approach encompasses research into party and campaign finance (Clawson, Neustadt and Weller 1998; Krehbiel 1999; Grier, Munger and Roberts 1994; West and Loomis 1998) and outright corruption (Girling 1997, Kang 2002, Maxfield and Schneider 1997, Rose-Ackerman 1999, Thompson 1993). A second approach emphasises the commonality of perceptions and
preferences among economic and political elites (Miliband 1969, Domhoff 1998). A third strand of inquiry concerns the ability of business to influence public opinion (Lipset and Schneider 1987; Page, Shapiro and Dempsey 1987; Smith 2000; Zaller 1992). The fourth type of theory, as already outlined in Chapter 1, concerns the non-intentional, structural constraints on the policymaking capacities of elected officials that arise from the capitalist mode of production. Studies within this latter field are concerned with the controversial and empirically elusive claim that the owners and managers of private enterprises enjoy a structural power position that enables them to secure political outcomes even if they abstain from political action. Closely linked to Marxist theories of the state in capitalist society, this argument has become known, variously, as the ‘structural dependence of the state on capital’ (Przeworski and Wallerstein 1988, Swank 1992), as the ‘business confidence’ factor (Block 1977), or as the ‘privileged position of business’ (Lindblom 1977, 170-188). In the following sections I review the four approaches in turn, assessing their respective contribution to explaining why business gets what, when, and how in democratic politics.

3.2 Pluralism and the study of business as an interest group

In the pluralist paradigm, government is an arena in which different social and economic interests compete to be heard by elected officials (cf. Dahl 1971, Polsby 1960). In this perspective, business aims to secure favourable political outcomes – and avert unfavourable ones – by influencing the formation of public policy, its passage through the legislature and its implementation. It does so through lobbying, by which I mean contacting and pressurizing policymakers such as individual legislators, ministers, and civil servants (cf. Richardson 1993, 1; Baumgartner and Leech 1998, 33-36). The traditional concept of lobbying holds that on occasions of such contact between lobbyists and political decisionmakers, the former exert various kinds of pressure on the latter. Pressure, in this view, is conceived of in the sense originally identified by Bentley as the ‘push and resistance’ between groups (Bentley 1993, 19). Bentley stresses that his notion of pressure is broad enough to include ‘all forms of group influence upon group, from battle and riot to abstract reasoning and sensitive morality’ (Bentley 1993, 20). However, pressure in this sense clearly refers to political action, even when, as Bentley is careful to point out, ‘tendencies to activity are pressure as well as the more visible activities’
In this view, political decisionmakers are either subjected to action by interest groups or face the threat of future action.

Thus, if interest groups’ actions are defined as pressure, their strength is seen as a function of their ability to exert pressure. This ability varies with the size and type of a group’s membership, its financial resources, monopolistic control of expertise and information, status and access to government and the media, the capacity to influence public preferences, and its organisational structure. The institutional organisation of the government and the state bureaucracy are also relevant for group strength. The pluralist tradition in the study of interest group politics has been firmly committed to this concept of lobbying as pressure politics. In the classic works, we consequently find conceptions of the lobbying process as one in which interested social groups and private actors force their views and preferences upon political decisionmakers who, in the absence of such pressure, are assumed to hold different views and preferences over outcomes. The emphasis on political action in Bentley’s notion of pressure politics is exemplified in his description of the political activities of firms and their management:

‘The directors of a company may finish their ordinary business and turn at the same meeting to discuss the part the corporation will take in the next political campaign. Their activity, which a moment before was industrial or economic, then becomes at once political – a part of the governing process of the country – and is to be studied specifically as such’ (Bentley 1993, 21-2).

We are presented here with a view of business political action in which corporate directors and executives undergo a transformation of identity from economic decisionmakers, with little concern for politics, to political actors who go out to fight for the political benefit of their firm or their industry.

In the pluralist perspective, the immediate objective for interest group leaders and lobbyists is access to political decisionmakers. Interest groups cannot be successful in their endeavours if they lack access to one or more of the key points of decisionmaking in the government (Truman 1963, 264-270). In their study of American interest group politics, Schlozman and Tierney (1986, 104) describe access as ‘at once the most cherished re-
source and the most pressing objective of the Washington Lobbyist'. The question of how groups gain access to policymakers therefore becomes crucial for the study of business political power. For pluralists, the question of business' political power turns into the question of whether business enjoys privileged access to policymakers and whether it can make more of these encounters than non-business groups.

3.2.1 Business' privileged access to policymakers

Anecdotal evidence suggests that economic elites find it generally easier to gain access to politicians than other groups. For example, for a fundraising dinner in New York in February 2004, the governor of California, Arnold Schwarzenegger, invited guests to donate between $50,000 and $500,000 for a seat at the meal. Although the dinner was billed as the biggest fundraiser in the history of politics, similar events in the US regularly command expected donations of five and six digit dimensions. Clearly, few people are in a position to attend this kind of event who are not also members of an economically advantaged group – a characteristic that, in Western capitalist countries, is strongly correlated with ownership of, and management position in, business enterprise.

Yet, not all political parties, candidates, and policymakers might manage their accessibility in this way. It seems reasonable to assume that left-leaning politicians, for example, communicate with non-business interests – e.g. trade union representatives or, indeed, ordinary citizens – more frequently than with business, relative to their rightwing counterparts. However, as I will show in Chapter 6 of this study, business interests receive roughly as much attention from leftwing politicians as from right-leaning ones. Research undertaken by Chin, Bond and Geva (2000) on lobbying in Washington D.C. suggests that politicians value ordinary constituents' interests over business and money givers. Based on interviews with Washington staffers, they found evidence that members of Congress give priority to constituent requests over PACs. According to one of the staffers they interviewed, '[f]olks who are with organizations but are not constituents are very low priority.' In the staffer's view, this is done for purely electoral reasons: 'Re-election depends on honouring [...] constituent matters' (quoted in Chin, Bond and Geva 2000, 545). The staffer also pointed out that '[i]nterest groups may use

PAC status to get a foot in the door, but constituents generally find that door open when they call' (Chin, Bond and Geva 2000, 545). In European countries, where local constituency interests are generally less central to the work of national parliamentarians, comparisons between business and non-business groups may be more apposite than the opposition between constituents and non-constituent. As I will show below in Chapter 6, while business interests enjoy disproportionately frequent contact with policymakers when compared with public interest groups such as consumer groups or environmentalists, they are themselves often outdone by trade union representatives.

3.2.2 Turning access into influence

To what extent does business' access to policymakers translate into political influence? While conceding that business has superior political resources such as money, organisation and status, pluralist critics of theories of business political power argue that the existence of these resources does not imply that they are effectively employed or actually make a difference for political outcomes (Wilson 1981, 37). Elected politicians may talk to just about everybody in their constituency and listen to their concerns, but that does not tell us much about how they weigh the information or messages they receive. Meeting the governor of California for dinner may be quite a different thing than wielding influence over his politics. In the context of Schwarzenegger’s current plans for partial privatisation of California’s employee pension provision system, labour unions claim that the governor’s plans are backed by powerful private enterprises, including Disney and Citigroup. But does that mean that industry backing is the cause of this particular political project?

In a meticulous analysis that has become a classic of the pluralist literature, Dahl (1961) researches the influence of various interest groups over municipal policymaking in the city of New Haven, Connecticut. In Who Governs?, Dahl identifies three political key issue areas in New Haven in the second half of the 1950s: urban redevelopment, public education, and nomination for local office. He then tried to find out whose preferences prevailed against what opposition in the respective decisionmaking processes. Based on evidence obtained through lengthy interviews with nearly 50 individuals who had actively participated in one or more of the decisions on these issues, three sample surveys

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on several 'subleaders', as well as two surveys on voters, and the perusal of minutes of the meetings of the political bodies involved (Dahl 1961, vi-vii), Dahl concluded that no single interest group in New Haven wielded any disproportionately high degree of power over more than one issue area. At the same time no group of individuals is entirely lacking in some political resource and, consequently, powerless (Dahl 1961, 228). Accordingly, in New Haven and, by further inference, elsewhere in the United States (Dahl 1961, v) power over public policy appeared to be widely dispersed and non-centralized.

Findings like this form the empirical basis of the model of polyarchal pluralism, according to which a diversity of groups wield non-cumulative power in only one or a few policy areas at a time (Dahl 1971). Because of its focus on observable decision-making behaviour, the pluralist approach to the study of group power is sometimes referred to as the decision method (Mokken and Stokman 1976, 52) or decisionmaking approach (Debnam 1984, 1). Its basic methodological claim is that only observable political action or behaviour in the decision-making arena counts as valid evidence about power (Debnam 1984, 1). Pluralist theory does not recognize non-overt, non-observable power, and demands an a priori assumption of the absence of power relations. In an essentially Hobbesian manner, all interests are presumed to be fundamentally equal; everyone has some access to policymakers; and, in the end, no one view or interest would become dominant. A major factor underlying this pluralist state of affairs is the fact that business is itself not a cohesive interest group. Depending on their size and sector, economic enterprises may have as little commonalities of interest as any random gathering of individuals. The economic and political interests of firms and their owners and managers are therefore far from unified. By contrast, there are good reasons to believe that the relationship among different firms is characterised primarily as one of competition and disunity.

Polyarchal pluralism also implies that non-business groups are sufficiently independent of business. However, this may not necessarily be the case. In the US, for example, strong traditions of corporatist philanthropy greatly shape the way in which interest groups are funded. If non-business, public-interest groups depend to a good extent on corporate philanthropic sources of income and funding, they are not really independent from the interests of the business community (cf. Nownes and Cigler 1998). Finally, as
Salisbury reminds us, determining the influence of lobbyists is complicated by the difficulties of identifying when influence has occurred and when there is really only parallelism of purpose and action between the lobbyist and government official (Salisbury 1975, 207). This problem has already been acknowledged by Dahl (1957) when he justified the need for focusing upon observable conflict arising between agents in the context of his concept of ‘oppositional power.’

3.2.3 Critique of pluralism

The pressure group view of business political power has received powerful criticism. Early on, Bachrach and Baratz pointed at two major weaknesses of the pluralist method of studying power. Firstly, it does not allow for the possibility that power is exercised by confining the scope of political decision-making to issues that are of little or no relevance to the holder of power (Bachrach and Baratz 1970, 6). Secondly, and closely related, Bachrach and Baratz claim that the decision-making method provides no objective criteria for determining important, i.e. ‘key’ issues (Bachrach and Baratz 1970, 7). And indeed, in their own empirical community power study, Bachrach and Baratz (1970) present some striking examples of the working of the second dimension of power. As a remedy to these conceptual shortcomings of the pluralist method, Bachrach and Baratz offer the concept of non-decisionmaking as the ‘second face of power’ (Bachrach and Baratz 1970, 8). According to this notion, ‘to the extent that a person or group – consciously or unconsciously – creates or reinforces barriers to the public airing of political conflicts, that person or group has power’ (ibid.). With respect to problems of the one-dimensional version of the decision-making method in identifying important or key issues, Bachrach and Baratz stress the importance of an analysis of the ‘mobilization of bias’ (ibid., 11). By this they mean ‘the dominant values and the political myths, rituals, and institutional practices which tend to favour the vested interests of one or more groups, relative to others’ (ibid.).

It is not difficult to see how this two-dimensional view of power involves some conceptual and methodological complications. Firstly, Bachrach and Baratz define a non-decision as ‘a decision that results in suppression or thwarting of a latent or manifest challenge to the values or interests of the decision-maker’ (Bachrach and Baratz 1970, 44). Their proposed method of identifying non-decisions leaves unspecified a crucial step in the explanation of the exercise of second-dimensional power. The means by
which second-dimensional power can be exercised are related to a lack of access to po-
litically relevant (i.e. power) resources on part of some persons or groups that enable
others to exercise power in the way of preventing a range of issues from being raised
(Bachrach and Baratz 1970, 55-6, 105; Hyland 1995, 199). Because Bachrach and
Baratz do not clearly distinguish between non-decisions arrived at by purposive action
on the one hand and those evolving from unintentional processes on the other, their ap-
proach does not allow for an analytical distinction between power as attached to pur-
posive action, and other forms of domination and subordination.

This leads us to a second point of critique that is put forward by Lukes, who resolves
the aforementioned confusion concerning intentionality by relegating Bachrach and
Baratz’s approach back into the realm of behavioural analysis of conflict and thereby.
Lukes claims that Bachrach and Baratz dealt insufficiently with the non-intentional as-
pects of the exercise of power. Accordingly, they were unable to acknowledge that the
phenomenon of collective action is ‘not attributable to particular individual decisions or
behaviour, nor that the mobilisation of bias results from the form of organisation, due to
‘systenic’ or organisational effects’ (Lukes 1974, 22, original emphasis). Furthermore,
Lukes argues that Bachrach and Baratz’s methodological device for identifying the co-
vert use of power, the observation of grievances, may result in their overlooking another
crucial dimension of the exercise of power, viz. the power of shaping other people’s
preferences: ‘To assume that the absence of grievance equals genuine consensus is sim-
ply to rule out the possibility of false or manipulated consensus by definitional fiat’
(Lukes 1974, 24). Lukes’ alternative proposal of analysing power as the manipulation of
preferences leads to even greater problems. I will deal with these in greater detail below
(3.4).

Pluralism has also come under attacks from critics that are more sympathetic to its theo-
retical claims. Empirically, the trouble is that studies of the effects of interest group ac-
tivities on political outcomes have generally produced inconsistent and non-robust
findings. In particular, researchers have found it difficult to explain legislative and
regulatory outcomes by reference to overt political pressure from interest groups, busi-
ness or not, or to the differential resource endowments of groups as measured by their
membership, strategic position, organisational strength, or simply the amount of money
injected into a lobbying campaign (Baumgartner and Leech 1998, 106-108; Smith 2000,
The enormous research output generated in relation to the political effects of corporate campaign contributions is a good example of the general failure in pluralist research to connect political inputs (e.g., money) to outcomes (i.e., policy). The one thing that we learned from these studies is that material contributions to candidates or legislators generally neither account for election results nor for the policymaking behaviour of the recipients. Given that in most countries such contributions are legally restricted to a few thousand US Dollars at a time, this is perhaps not very surprising. Very few authors deviate from this diagnosis (but cf. Sabato 1984). As a result, pluralist theories of interest group politics have in general proved unsatisfactory for explaining policy change. Another oft-heard criticism is that studies of interest groups do not lead to a set of observable, testable hypotheses due to a lack of precision in the specification of interest groups and their policy preferences. Students of international trade and finance politics, for example, criticise the alleged overemphasis on the impact of contextual variables, such as regime type (Frieden 1999, Milner 1997).

From a theoretical vantage, Morton and Cameron (1992) remind us to observe the ideological and electoral incentives of policymakers. They suggest that one of the reasons for the many weak and contradictory findings in studies on the policy effects of interest group activity is the unrealistic assumption that voters condone sell-outs by incumbent politicians to organized interests. This qualification applies a fortiori to big business. The objections, of course, echo Truman’s own claim that the efficacy of pressure politics by sectional interest groups is ultimately circumscribed and constrained by largely unorganized interests that are so widely held in society that they are ‘taken for granted’ (Truman 1963, 512). Truman describes these interests variously as a ‘general ideological consensus’, a ‘broad body of attitudes and understandings regarding the nature and limits of authority’, or simply the ‘rules of the game’ (Truman 1963, 512). For Truman, the flouting of these rules will result in ‘organized interaction and the assertion of fairly explicit claims for conformity’ on the part of the latent interests, that is, the silent majority of ordinary citizens (Truman 1963, 512). Thus, in the event that powerful organized interests manage to temporarily capture the policymaking process, the otherwise unorganized interests would mobilize in order to claim conformity with the democratic rules of the game. Because of their desire for re-election, political representatives are constantly held accountable by Truman’s ‘taken for granted’ interests. In the
pluralist tradition, this mechanism provides the ultimate check against the domination of public policy by organised sectional interests, including business (cf. Dahl 1961, 1971).

The claim that the latent interests of the silent majority will become actual and vocal if they find themselves being exploited by special interests has been met with powerful criticism in the work of Olson. In a passage that is worth quoting in full, Olson (1965, 127-128) identifies the freerider problem of collective action as the source of the policy bias toward special interests:

Since relatively small groups will frequently be able voluntarily to organize and act in support of their common interests, and since large groups normally will not be able to do so, the outcome of the political struggle among the various groups in society will not be symmetrical. Practical politicians and journalists have long understood that small ‘special interest’ groups, the ‘vested interests’, have disproportionate power [...]. The small oligopolistic industry seeking a tariff or a tax loophole will sometimes obtain its objective even if the vast majority of the population loses as a result. The smaller groups – the privileged and intermediate groups – can often defeat the large groups – the latent groups – which are normally supposed to prevail in a democracy. The privileged and intermediate groups often triumph over the numerically superior forces in the latent or large groups because the former are generally organised and active while the latter are normally unorganised and inactive.

Olson further illustrates this argument by invoking V.O. Key’s oft-quoted textbook example that the lobbyists for electrical utilities are ‘eternally on the job’, while the lobbyists for the consumers of this oligopolistic service are ordinarily ‘conspicuous by their absence’ (Key 1964, 166).

In a capitalist democracy characterised by competitive markets and regular free elections, however, the free-rider problem of collective action may not be sufficient to explain why elected politicians cater to special interests, for three reasons. Firstly, in many cases, rather than opposing a policy wholesale, businesses concentrate on very specific aspects of the policy with the aim of minimising the cost implications for themselves. This occurs more frequently for some policies than others and is known as ‘loophole
lobbying' (Polk and Schmutzler 2003). For instance, an economy-wide energy tax, like the German Eco Tax, can be designed in many different ways, with exemptions for various sectors. This leaves considerable scope for loophole lobbying of specific sectors and even individual firms. As a result of successful lobbying, the overall policy would still be implemented, but will have undergone modifications because sectors or firms have successfully engaged in private lobbying rather than coordinating effectively to fight regulation as such.

Secondly, firms operating even in oligopolistic markets are not free from falling victim to the freerider problem themselves, even if private loophole lobbying is not an option. Polk and Schmutzler (2003) observe the increased likelihood of successful collective action in the absence of incentives for loophole lobbying in the context of universal road speed limits. Assuming that car manufacturers are most affected by this policy, there is little scope for disagreement within the industry concerning its desirability or impact. A speed limit may be more or less rigid, but that is about as far as regulatory flexibility goes. Private lobbying in this area cannot achieve much (Polk and Schmutzler 2003, 3). Although the free-rider problem of industry-wide, collective lobbying is thus substantially mitigated by the absence of the alternative, private lobbying, it still constrains business' ability to achieve common goals. While Polk and Schmutzler cite the highly successful lobbying of the German automobile industry against speed restrictions as evidence for powerful collective action in the absence of loophole lobbying, the existence of strict speed limits in most other countries points at the persisting relevance of free-rider problems independently of the scope for private lobbying.

Thirdly, one might expect rational voters to see through political attempts to curry favour with special interests at their expense (Lohmann 1998, 810). A disaffected majority aware of such a policy bias could punish its political representatives by voting them out of office (ibid.). The possibility of small, efficient groups hijacking the policy process at the expense of latent groups therefore, has to rely on some degree of voter ignorance. It is claimed that political incumbents can and do systematically fool a majority of voters by favouring special interests while keeping the costs imposed on the majority below some awareness threshold (Becker 1983, 391-4; Wilson 1980, 369). Because information gathering is costly, voter rationality implies incentives for the electorate to be ill informed (Downs 1957). Yet, Lohmann (1998, 810) argues that this reliance on igno-
rants is flawed because citizens avail of low-cost information short-cuts as by-products of engaging in various social and economic activities in daily life. Voters accumulate low-cost information about their personal wealth and well-being: ‘Even if they are ill-informed about policy detail, they nonetheless know how well off they are, and they can base their vote on this knowledge’ (Lohmann 1998, 810).

Indeed, one robust empirical regularity observed across industrialised democracies is the phenomenon of retrospective voting. Incumbents who preside over good economic performance tend to get re-elected (Fiorina 1981). Furthermore, McKelvey and Ordeshook (1985) and Lupia (1992) have shown that in an election year otherwise ill-informed voters vote by and large as if they had full information. All it takes for this to happen is that a few fully informed voters exist, that parties and candidates know that they exist, and that candidates know the platforms of their competitors. This suffices for candidates to devise median platforms and voters voting for the most preferred candidate. This, of course, brings us back full circle to Morton and Cameron’s (1992) critique, cited above, that policymakers and business interests cannot be assumed to get away easily with circumventing the democratic process. Should we therefore agree with the sceptical pluralists that business does not wield any noteworthy political power in comparison to ordinary citizens? There are strong reasons, indeed, to share Polsby’s (1960) view that ‘it is easy to spot the banker who really does run community affairs when we presume he does not, because his activities will make this fact apparent’ (Polsby 1960, 481, original emphasis). Yet, the paradox of distribution remains as a strong reminder that business interests fare disproportionately well in at least this important policy area.

To sum up, pluralists purport to be able to explain why business often does not get what it wants. This leads them to conclude that no serious pro-business bias exists in politics that could give rise to concerns about democratic legitimacy and political equality. For pluralists, business as an interest group poses no threat to democracy because economic elites are seen as fragmented rather than integrated. Moreover, politics is normally not their core activity, which makes it additionally difficult for businesses to pursue common political goals even where these goals exist and have been identified. Business enterprises exist primarily for one reason – doing business. If anything, small subgroups of companies or industries are seen as pursuing their own specific interests without in-
volving the rest of the business community in their country (Lowi 1969). By and large, however, relations within the business community are seen as primarily conflictual. These conflicts produce multiple power-centres, which no single group can dominate simultaneously.

This view has become heavily disputed at an early stage. Criticisms of the pluralist perspective concern business' ideological influence, its structural influence deriving from control over society's economic assets, and the superior resources business can commit to the usual channels of interest group politics (cf. Dahl 1982, Lindblom 1977). I will return to these aspects in more detail in the sections that follow. For the moment, it should be acknowledged that this criticism has not bypassed pluralists entirely. In a neo-pluralist modification, scholars like Dahl, Lindblom, McFarland, Vogel, and Wilson have given greater weight to business power than did the earlier pluralists. In their view, business is seen as 'the most important power group' but not the 'dominant power group' (McFarland 1991, 271). In particular, the neo-pluralists claim there are cyclical fluctuations involving a succession of periods of business political control during times of political reform, when countervailing groups successfully challenge business power (McFarland 1991, 263). In Vogel's (1989) view, the performance of the economy and the amount of unified business political action jointly determine the political effectiveness of business. Good economic performance is said to decrease business political power as the public raise their expectations about what business can afford.

Neo-pluralists do not accept the view that resource endowments are in any way equal across groups. Instead, they explicitly allow for variations in strength among groups depending on a range of resources on which business often outperforms other groups. Salisbury (1984), for example, finds that business has a systematic advantage over others in politics because business corporations and trade associations are 'institutional groups', who tend to be able to sustain a more permanent presence in the policymaking process and are unconstrained by the need to seek membership approval. A further source of criticism of the pluralist approach concerns the assumptions of fragmented economic elites and their interpersonal and organizational independence from political elites. These are issues raised by various elite and network approaches to the study of business political power, to which I will turn now.
3.3 The analysis of elite networks and policy communities

3.3.1 Business as a class-wide political community

In opposition to pluralist and neopluralist wisdom, elite and ruling class theorists main­tain that the business communities in capitalist countries constitute reasonably cohesive and, therefore, politically powerful groups. Pluralists and elite theorists do not disagree so much in principle on the notion that cohesive economic elites can dominate the po­litical process in a country. Rather, the bone of contention is whether the kind of cohe­sion or unity among the business community that would allow us to speak of a class­wide political group actually attains. Accepting Schumpeter’s (1976 [1942]) claim that the mass of citizens participate little in actual political decisionmaking, pluralists con­tend that the basis for polyarchal pluralism in advanced capitalist countries is the exist­ence of conflict and fragmentation among elites. However, elites can acquire political power and achieve dominant positions to the extent that they are unified.

This view is shared by classic pluralists as well as neopluralists. According to Dahl, ‘[t]he actual political effectiveness of a group is a function of its potential for control and its potential for unity’ (Dahl 1958, 465, original emphasis). And Vogel (1989, 12) acknowledges that ‘[w]hen business has been unified, its political power has often been extremely impressive.’ For neopluralists, business unity and, by implication, power, varies cyclically, thus allowing for non-business interests to advance their goals more effectively in periods of weak business unity. Mizruchi and König (1986, 482) have also found that there are circumstances under which elites act in a unified manner and others when they do not. According to their analysis of campaign contributions of corporate PACs in the 1980 US Congressional election, business unity concerning which candi­date to support is contingent on structural factors like market dominance and inter-firm transaction volumes. Pluralists have generally sought solace in the fact that business unity is overall rather unlikely to obtain, not least because of the structural properties of the market, which lead to constant competition among businesses. Potential sources of conflict include relations between financial and manufacturing firms, manufacturing versus retail, utilities versus corporate consumers, etc., to which we must add regional conflicts and competition within industries (cf. Mizruchi and König 1986, 482-483; Useem 1984). Furthermore, economic elites are seen as constituting groups and encom-
passing individuals that are largely distinct from public decisionmaking bodies and their members.

Elite theorists do not in principle disagree with respect to these tendencies toward fragmentation, but point at numerous mechanisms that facilitate cohesion and unity among the business community and, by further inference, its mobilization and power. Interlocking directorates and overlapping board memberships, business associations and private club memberships give business women and men a collective consciousness directed toward the class-wide and long-term interest of business (Mitchell 1997, 10). Furthermore, these networks facilitate and promote collective political and social activity of corporations. These mechanisms, it is argued, help the business community as a whole to overcome the divisive implications of intra-class competition and sectorally determined conflicting interests (Bearden and Mintz 1987). Consequently, much empirical elite research documents the historical mobilisation of dominant segments of the capitalist class to transcend their own individual interests in order to act politically for broader class-wide goals, especially in periods of crisis (Domhoff 1998).

Carefully conducted network analyses have repeatedly found that American business elites constitute highly integrated social groups. Using sociometric methods, scholars like Bearden and Mintz (1987) and Mizruchi (1982) have shown how firms are tied together by economic interdependence, common ownership ties, and interlocking directorates. Sociometric network analysis measures the frequency, and sometimes the quality, of relationships between the members of a group. The results generated by these studies indicate strong degrees of integration of a core network encompassing top-level economic decisionmakers. This integration, Mizruchi concedes, is partially due to a few very large firms within the most highly concentrated industries – a claim that was at the centre of the theory of monopoly capital (Baran and Sweezy 1966). However, Mizruchi is keen to emphasise that it is not so much firm size or market concentration per se, but rather corporations’ economic, organizational and social interactions that unify and empower them.

3.3.2 Integration of economic and political elites and the ‘revolving door’

The same sociological mechanisms that are found to forge bonds among the members of economic elites are also claimed to integrate economic elites with politicians and civil
servants. As a result of these processes, the captains of industry share common social and sometimes professional, educational, and recreational experiences with politicians and leading civil servants. This, of course, is a theme that has been around since the elite theories of Hunter (1953) and Mills (1956). In his book, The Power Elite, Mills insisted that American politics was run by three small groups of elites residing in the Pentagon, the executive branch of the federal government, and the boardrooms of America’s largest corporations. According to Mills (1956, 11), these elites derive their power from the fact that they ‘form a more or less compact social and psychological entity; they have become self-conscious members of a social class.’ Mills’ thesis was later canonized by Dwight D. Eisenhower, who in his 1961 farewell address as outgoing US president voiced fears about the power of the ‘military-industrial complex’ undermining American democracy.

The conception of the power elite and its unity rests upon the notion of fundamental commonalities of interest among economic and political elites. It also implies a similarity of origins and outlook, all due to the social and personal intermingling of the top circles from each of the constituent elites. Consequently, much empirical power elite research focuses on the aspects of education and socialisation that induce similar outlook and sentiments among future members of both the political and economic elite (see for example Miliband 1969, 35-48). Cookson and Persell (1984) document the historical role performed by elite preparatory schools in the formation and maintenance of the American upper class. By putting Boston patricians under the same roof with New York nouveau riches, these schools ensured that blood and money would recognize their common class interests. According to Cookson and Persell, the shared ordeal of the prep school rite of passage would create bonds of loyalty that differences in background could not unravel. Historically, the collective identity forged in prep schools would become the basis of upper-class solidarity and consciousness. The process of elite integration is continued in the Ivy League universities. In the UK, similar functions are performed by ‘public’ schools and the Oxbridge colleges, while in France the Ecole Nationale d’Administration is the unique cadre production facility that no aspiring politician, civil servant or manager can afford to bypass (cf. also Miliband 1969, 55-67).

In a powerful empirical assessment of the central claims of elite network theory, Moore (1979) gauges the degree of integration among economic and political elites in the US.
Using data from interviews with over 500 leaders of major political, economic and social institutions from the *American Leadership Study* conducted by the Bureau of Applied Social Research in 1971 and 1972, Moore investigates the structure of an elite interaction network by formal network analysis. Her results demonstrate the existence of largely unfragmented elites in different institutional and issue-related contexts. The structure of the networks studied by Moore indicates that at least a strong potential for unity among elite individuals exists, and that almost all of these individuals have a high potential for control due to their incumbency in high-level positions. Thus, the structure exists through which elites in various institutions could become unified in the pursuit of common goals.

Moore also finds, however, that these networks are formed around specific issues, and that membership in a network is not so much the result of privilege from birth or upbringing, but derives from the issue-related interests shared by the members of the network. Contradicting the central claims in the work of Domhoff, Hunter, and Mills, Moore's findings suggest that the integrated network in her data is not based on similarities in the social origins and affiliations of its members, to say nothing of upper class origins (Moore 1979, 689). Having included not only economic but also political elites in her analysis, Moore's results correspond to the earlier political science literature on policy communities. Dating back to the 1950s, this literature has identified the ability of groups to shape the particular part of government of concern to their interests as an important point of leverage for interest group pressure (Maass 1951, Redford 1969, Sayre and Kaufman 1965). It is argued that economic elites proceed by developing close relationships and entering into tight alliances with the relevant branches of government such as ministerial civil servants and parliamentary committees, creating what has become to be known as 'islands of functional power', 'policy subsystems', or 'iron triangles'.

The notion of the primacy of these functional, rather than social, ties between the members of economic and political elites is claimed to be further reinforced by the politics of the 'revolving door' (Eckert 1979, Gormley 1979, Salisbury et al. 1989). According to this claim, private firms find it attractive to hire former senior civil servants, regulators, and even cabinet ministers. Once in their new private sector positions, the former policymakers use their connections and influence to further their new employers' political
interests as well as using their factual expertise to advise them on government relations. Similar passage in the opposite direction also occurs. A prominent recent example of someone who has travelled the revolving door full-circle is the current US vice president Richard Cheney. A former Defence Secretary in Bush (senior) administration, Richard Cheney became CEO of the Halliburton Company in 1995, only in order to find his way back into the federal administration in 2000. This version of the revolving door process has therefore also become known as the ‘Cheney effect’ (Bryce 2000). Despite the pervasiveness of this phenomenon, however, little evidence exists on the motivations underlying the revolving door. Sticking to the Cheney case, the reason for his recruitment by Halliburton could have been his extensive ties to the defence department. The alternative is that Cheney’s management experience at the Department of Defence prepared him for the job of CEO (Helland and Sykuta 2001, 1).

3.3.3 Policy Networks

More recent elaborations of the elite-centred approach to the study of interest group politics include the analytic framework of ‘policy networks.’ The modern network approach originates with Richardson and Jordan’s book Governing Under Pressure (1979). Focussing on the elite character of Britain’s policy process, Richardson and Jordan observed close relationships in policy communities encompassing civil servants and business. Developing this approach further, Rhodes (1986) and Marsh and Rhodes (1992) established ‘policy network theory’ as the leading paradigm in the study of interest group politics and the policy process at least in British political science and policy research (John 1998, 83-85). Policy network analysis views the political involvement of business primarily as the developing and maintaining of close relationships with policymakers and other actors with common stakes in a policy area (Marsh and Rhodes 1992). Public policymaking is seen as decisionmaking by interdependent ‘public’ and ‘private’ actors who engage in exchange relations. Researchers ascribe to a given network a set of relatively stable characteristics, such as types of exchanges and sets of values that differ according to the policy area in question (John 2000). Common to all sectors is the notion that ‘[t]he existence of a policy network, or more particularly a policy community, constrains the policy agenda and shapes the policy outcomes’ (Rhodes and Marsh 1992, 197). Policy change takes place if and when the relevant policy community agreed it was necessary and a consensus exists on the direction of change (Richardson 2000, 1006).
Closely related to the idea of policy networks is Heclo's (1978) concept of 'issue networks'. According to Heclo, the emergence of more participatory forms of politics and the proliferation of interest groups has unsettled previous equilibria involving the aforementioned self-contained 'policy subsystems' and 'iron triangles'. In their place, we now find shifting coalitions involving policymakers, interest groups, and professional lobbyists. Working within this approach, Carpenter, Esterling and Lazer (1998) investigate the working of 'weak ties' between and across networks, as opposed to 'strong ties' between people that know each other well, as implied in the accounts of 'old boys' networks by Domhoff and others (e.g., Domhoff 1975). Using network analysis, they found that lobbyists' access to political decisionmakers depends crucially on these weak contacts. In a similar vein, the 'policy advocacy coalition' approach of Sabatier and Jenkins-Smith (1993) analyses how different interest groups join forces to advance their common interests.

Resembling the sociological elite network research of Mizruchi, Moore, and Useem, political scientists working within this newer policy network paradigm also undertake formal network analyses of political and economic elites. For example, Laumann and Knoke (1987) analyse how inter-organizational communication networks shape collective action campaigns in the US energy and health sectors. Studying the policy areas of agriculture, energy, health, and labour in the US, Heinz et al. (1993) uncover a variety of network configurations. And an examination of the similarities and differences in labour policy networks between the US, Germany, and Japan, leads Knoke et al. (1996) to find that different state traditions and historical patterns of government intervention in the economy are important sources of variation in network structure.

3.3.4 Critique of elite network approaches

A common theme emerging from the policy network studies is the absence of a systematic correlation between similarity of behaviour, politico-economic elite integration, and political success. This is particularly puzzling as these studies generally find that cooperation among businesses is rather common and that business actors enjoy privileged access to policymakers (e.g. Knoke et al. 1996; Su, Neustadt and Clawson 1995). If their findings generally support the notion that business constitutes a powerful force in public policy, why do these studies not provide us with clearer explanations of the
sources and limits of business political power? One way of answering this question is to acknowledge that the empirical finding of business' privileged access is beyond the explanatory scope of the policy network approach. Dowding, for example, identifies a conflation of explanandum and explanans in network theorist's attempts of providing a theory of the policy process. According to Dowding, the attempts to build a theory fail because the independent variables 'are not network characteristics per se but rather characteristics of components within networks. These components both explain the nature of the network and the nature of the policy process' (Dowding 1995, 137). Responding to this criticism, Marsh and Rhodes admit that the policy network is really more a research tool than a theory (Marsh 1998, 186-6; Rhodes and Marsh 1994). The concept is thus primarily descriptive rather than definitional or explanatory (Richardson 2000, 1006). To this, we can add fundamental questions of measurement. John (2000) points out that it is not clear what exactly the network is supposed to measure. By counting contacts it is not possible to know whether the researcher has picked up symbolic, operational, or implementation matters as well as policy choices (John 2000). It is therefore possible that networks fail to represent important relationships and illuminate political power.

The policy network framework appears to be more fruitful when networks are explicitly treated as the dependent variable. Research on the formation of policy networks suggests that the same factors that endow actors with influence over a particular area of public policy also illuminate why these actors are included in the respective issue network or policy community (König and Bräuninger 1998). Similarly, in their reassessment of Grant's distinction between 'insider' and 'outsider' groups (cf. Grant 1978, Grant 2000), Maloney, Jordan and McLaughlin (1994) emphasise the exchange-based nature of the relationship between interest groups and policymakers. Insider groups have preferential access to policymakers due to their perceived legitimacy from claiming to speak for a segment of the population. Policymakers offer organised interests the opportunity to shape policy while groups provide policymakers with useful resources including knowledge, advice and expertise, membership compliance, implementation guarantees, etc. (Maloney, Jordan and McLaughlin 1994, 20-27). Thus, it is what groups bring to the consultation process that determines the extent to which they acquire influential status in a policy community or network. This argument can easily be extended to include corporatist and neo-corporatist patterns of interest group representa-
tion granting privileged status to the main sectional interest groups because these groups are powerful actors to be reckoned with.

Reviewing research on corporate networks and business unity, Mizruchi suggests that the unity that makes business powerful is best treated as an objective characteristic of social structure (Mizruchi 1992, 33), rather than the shared set of normative sentiments implied in much of the elite network research reviewed above. For Mizruchi, the most important phenomenon to examine in order to understand business political power is the similarity of behaviour rather than the similarity of sentiment or interest. Consequently, he suggests replacing the concept of class cohesion with that of "structural equivalence" (Mizruchi 1992, 33-52). "Structural equivalent actors", in this view, are "those with identical relations with other actors in the social structure" (Mizruchi 1992, 44). Structurally equivalent actors occupy joint positions if, for a given relation, both relate to other actors in exactly the same way (Lorrain and White 1971). Usually, it is assumed to suffice that actors have a high degree of similar ties to others in order to qualify for being placed in a structurally equivalent position. Furthermore, the existence or absence of a direct link among structurally equivalent actors is irrelevant (Knoke 1990, 239). Thus, even where no interpersonal network integration exists, a "structurally equivalent" position of businesses in democratic capitalist societies can be identified to provide firms with incentives to pursue common political strategies with pooled force and tremendous prospects for success. For example, both the plastics and automobile industries have a strong interest in policies that maintain a low price of oil. As a result, both industries might support policymakers or election candidates who favour oil price controls without there being any need for these industries to communicate with one another (Mizruchi and König 1986, 484). Therefore, it is not necessary to demonstrate the existence of business cohesion in order to demonstrate that the corporate community in the aggregate is a powerful force capable of acting politically in a unified way. Rather, business is a formidable political actor to the extent that individual businesses react in the same manner to a change, or anticipated change, in their regulatory environment. Regardless of any intention on the part of business to act with one voice, the structurally equivalent position of a sufficiently larger number of individual enterprises with respect to a particular policy will induce them to act in a similar way.
Overall, students of policy networks, policy communities and issue networks have yet to explain whether and why business succeeds in policy struggles. The main contribution of network approaches to the question of business political power is in the area of network formation. Here, the bulk of research hints at two characteristics that boost a group’s chances of being a member of a network or policy community or of acquiring insider status in consultation networks: their structurally important position with respect to the successful implementation of policy, and their ability to provide useful information and expertise to policymakers. I will deal with the first factor in section 3.5 of this chapter, while the second factor will be dealt with at length in the in the next chapter. First, however, I discuss another possible source of business political power: the ability of business to shape public opinion.

3.4 Ideological domination and business’ control over public opinion

In the ideal world of business, policymakers and the public will already want exactly what business wants (Mitchell 1997, 41). This, one could argue, would also be an ideal state of affairs for democracy for, if the public wants what business wants, business interests would hardly pose a problem for democracy (ibid.). And indeed, business tends to fare relatively well in public opinion in modern capitalist societies. According to survey research undertaken by McClosky and Zaller (1984) in the US, support for democratic values and support for capitalist values go hand in hand. Similar findings have been reported by Lipset and Schneider (1987). Critics claim, however, that, far from indicating a harmonious commonality of interests, these coinciding preferences may be the result of business control over the means of knowledge and preference production in society. Lindblom (1977, 204-205) points out that public political debate in capitalist countries is overwhelmingly silent with respect to the ‘grand issues’ such as the legitimacy of private enterprise or the basic patterns of income distribution. Indeed, there appears to be wide consensus on the fairness or legitimacy of social and economic inequality. For Lindblom, ‘[i]t is one of the world’s most extraordinary social phenomena that masses of voters very much like their elites. They demand very little for themselves’ (Lindblom 1977, 209). He goes on to suggest that the prevailing consent is largely artificially manufactured.
Such manufacturing is said to be possible because, of all the factors of socialisation, the mass media are the ones most immediately accessible to the business message (Miliband 1969, 227-238; Mitchell 1997, 46). Mitchell demonstrates that the mass media are also generally very sympathetic to business, as judged by the perceptions of business representatives and trade unionists (Mitchell 1997, 50-1). This finding is supported by content analysis of media coverage of economics and politics (Glasgow University Media Group 1980). Moreover, research by Page, Shapiro and Dempsey (1987) shows that it is possible to influence public policy preferences if the position of those doing the influencing is backed up by expert opinion or framed as being in the public interest. The required expertise and scholarly underpinning of business-friendly messages, it is argued, is regularly provided by conservative think tanks such as the Heritage Foundation and the American Enterprise Institute in the US, or the Centre for Policy Studies and the Adam Smith Institute in the UK (Smith 2000, 189-196). Thus, the requirements are met for business to be able to manipulate citizens’ preferences and public opinion in a way such that business interests will seldom be vitally challenged in politics.

The implied dominance of elite interests in the formation of public opinion was famously theorised as a critique of pluralism by thinkers such as Lukes (1974) in his account of the ‘third dimension’ of power. Lukes’ concept of power involves the capability of powerful elites to induce in others beliefs, preferences or wants that run counter to their real interests. In the social and political world, Lukes argues, conflicts of preferences are replaced by latent conflicts of real interests. What prevents these latent conflicts from erupting into open conflicts is the fact that people whose preferences diverge from their interests are unable to realise their real preferences. Third-dimensional power, for Lukes, thus consists in the ability of some agents to intentionally manipulate other people’s beliefs and preferences. ‘A may exercise power over B … by influencing, shaping or determining his very wants’ (Lukes 1974, 23). These forms of the exercise of third-dimensional power are instances of the active distortion of beliefs through indoctrination and propaganda. They are considered by Lukes to be ‘the most effective and insidious use of power’ to prevent conflict (Lukes 1974, 23).

The immediate results of power thus exercised are beliefs, preferences, and wants on the part of the person or group subject to third-dimensional power that are not in accordance
with that person’s or group’s ‘real interests’ (Lukes 1974, 24-5) and that can best be described with the Marxist term of ‘false consciousness’ (Hyland 1995, 201). The underlying conflict of interests is a *latent conflict*, which consists in a contradiction between the interests of those exercising power and the real interests of those they exclude’ (Lukes 1974, 24-5, original emphasis). This claim is linked in with the ‘third dimension’ of power, which is now formulated in terms of conflicts of objective interests: ‘A exercises power over B when A affects B in a manner contrary to B’s interests’ (Lukes 1974, 27).

The methodological difficulties implied by this concept of power are obvious, and Lukes is by no means unaware of them: ‘How can one study, let alone explain, what does not happen?’ (Lukes 1974, 38). Moreover, if a ruling elite were at work to manipulate people’s minds, it would be naïve to assume this elite to be active in some observable manner (Mokken and Stokman 1976, 45). Third-dimensional power by definition operates invisibly. The non-decisions and latent conflicts are the only ‘evidence’ for the existence of this dimension of power, which may be persuasive but not conclusive (Barnes 1993, 200). Prior to these methodological difficulties of detecting third-dimensional power, three fundamental theoretical problems with this notion of power must be dealt with.

The first problem concerns the ontological notion of ‘objective’ or ‘real’ interests independent of subjective preferences (Hyland 1995, 201-202). Any overt conflict of preferences between two parties A and B that results in the prevailing of one party, let us say A, over B can be interpreted as evidence for A’s greater power. According to Lukes’ concept of power based on a conflict of ‘real’ interests, however, the precise opposite can just as well be true, since A’s preferences could be contrary to his real interests, with the same being true for B (Hyland 1995, 202). The defaulting claim that it is by definition against B’s interest to be subjected to the power of A renders the entire argument

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14 In fact, as Barnes points out, all power is invisible as such, including the first-dimensional, oppositional form of power at work in pluralist accounts of politics. The difference is that in the first dimension there is ready-made positive evidence in the form of the explicit preferences and outcomes of the decision-making process (Barnes 1993, 200-205).
circular, since the very existence of a power relationship depends, in turn, on inflicting harm on someone’s interests (Hyland 1995, 202).

Secondly, the necessity of giving a coherent account of a person’s objective interests entirely independent from subjective preferences ineluctably involves employing a normative theory of human nature, which will not be open to straightforward proof and disproof (Hyland 1995, 203). Lukes, to be sure, is fully aware of this problem when he admits that different conceptions of interests are based on different moral and political positions (Lukes 1974, 34), and that his entire view of power is ‘inerradically evaluative’ and ‘essentially contested’ (Lukes 1974, 9). Far from solving the problem of objective interests, however, this confession can be said to merely illustrate the ‘epistemological relativism’ of the concept of third-dimensional power (Hyland 1995, 203). While it is probably true that universal agreement is unlikely to be reached on any basic theoretical concept in the social sciences, this does not absolve the researcher from attempting to increase the area of intersubjective comparability and comprehensibility (cf. Polsby 1980, 231).

Thirdly, as Hyland argues, a defensible theory of human nature will inevitably have to be based on human experience (Hyland 1995, 203). According to the concept of third-dimensional power, however, human experience is itself distorted, since it is exposed to the working of this power, which takes the form of ‘the control of information, through the mass media and through the process of socialisation’ (Lukes 1974, 23). According to Hyland (1995, 203), this leads to another circularity of the argument:

If we base our theory of human nature on distorted experience we will be unable to detect third-dimensional power; but we will only be able to determine which experiences and forms of consciousness are the products of distortion after we have formulated a defensible theory of human nature.

None of these three problems should cause us to rule out the possibility of misconstrual of interest and a misunderstanding of their situation by social agents, as well as instances of intentional disinformation and attempts at the manufacturing of consent. However, we should reject the idea that the bulk of these cases can be brought about by intentional manipulation (Hyland 1995, 207). The problem is not so much the notion
that individuals or groups hold beliefs that prevent them from appropriately interpreting their situation of subordination and subsequently taking steps to transform their grievances into political issues. Furthermore, such misguided beliefs may even be shown to serve the interests of some dominant group of people. The problem consists rather in the notion of the intentional manufacturing of these beliefs by the wielders of third-dimensional power.

According to Elster, preferences are co-determined by the feasible set of options. Elster (1982, 126-7) calls this *adaptive preference formation*, which he defines as

the adjustment of wants to possibilities, [...] a causal process taking place ‘behind the back’ of the individual concerned. The driving force behind such adaptation is the often intolerable tension and frustration, or ‘cognitive dissonance’, of having wants that one cannot possibly satisfy.

Rather than being the product of some external manufacturing, however, adjusted preferences are developed endogenously. The fact that adjusted preferences on part of the subjects are beneficial to the interests of other agents does not by itself warrant the conclusion that the latter play an active role in the formation of these beliefs. While, in Elster’s words, ‘the oppressed classes often will be victims of a kind of myopia that prevents them from seeing the injustice of their situation’ and this may, furthermore, be ‘good for the ruling class; [...] even a systematic correlation would not by itself warrant an explanatory statement’ (Elster 1982, 137).

The explanatory key to such adjusted preferences does not consist in the benefits they bring about for some ruling elite but in their benefits for the subjects, *viz.* in the reduction of cognitive dissonance (Elster 1983, 110-116). This is not to say that the rulers are entirely inactive with respect to beliefs and desires created in the subjects. Indeed, ideological indoctrination has always been part of what can be perceived as political culture in a broader sense, and most likely always will be. Quoting the importance of Methodism for the acceptance of the capitalist division of labour and wealth at the dawn of English capitalism, Elster insists, however, that such instances of indoctrination are as much the ideology of the rulers as they shape the beliefs of the ruled (Elster 1983, 116). To the extent that indoctrination takes place, it can be successful only because the
rulers – and, of course, the actual preachers – themselves believed in it (Elster 1983, 117). The reason is that attempts of purposively producing mental states in other persons are bound to fail, unless there is no doubt on part of the recipient that the propagated beliefs are genuinely shared by the sender (Elster 1983, 66-71). Thus, the beneficial effects of certain ideologies and beliefs for the rulers are mere by-products of the ruler’s own convictions. As such side effects, however, they have no explanatory power, because we cannot conclusively explain the existence of a phenomenon by its effects (Elster 1983, 117). Thus, unless clear evidence can be presented for demonstrating the conscious and successful utilization of ideology on the part of a powerful elite, to conceive of the existence of adaptive preferences as products of third-dimensional power comes down to a ‘wildly implausible conspiracy theory’ (Hyland 1995, 207). What remains of claims about business’ control over citizens’ preferences and beliefs is the adaptation of preferences to what is perceived to be a feasible set of options. The structural constraints on the set of possibilities for action are the subject of the next section.

3.5 Structural explanations of business political power

According to political lore, Bill Clinton’s adviser, James Carville, wrote four words – ‘It’s the economy, stupid!’ – on a placard for the Democratic candidate to see every time he went out to speak during the 1992 US presidential election campaign. It can be argued that Carville could have saved his effort, as the notion that economic performance is of overarching importance for the popularity and electoral success of politicians in democratic capitalist societies is universally accepted among practitioners and academics. Since Key’s (1968) study, The Responsible Electorate, most popularity functions assume a simple reward-punishment model of political popularity and electoral success: If economic conditions are good, so the argument goes, the electorate will reward incumbents, while it will punish them if economic conditions are less than satisfactory.¹⁵ Yet, while recent comparative research suggests that the economy tends to weigh more heavily than other factors in the vote decision (e.g., Alvarez, Nagler and Willette 2000),

this does not imply that voters value the economy more than other political goods. The underlying claim is rather that the economy represents an informative and easy to interpret clue about the competence of incumbent politicians (Erikson 1989). It is primarily for this reason that voters are likely to rely on economic evaluations more than on other signals in making a voting decision (Lewis-Beck and Stegmaier 2000). Crucially for the present context, there is evidence that policymakers anticipate the effects of economic voting in their policy decisions and strategic behaviour (see for example Kiewiet 2000, Palmer and Whitten 2000). As a special case of Friedrich’s (1963) ‘law of anticipated reactions’, this is where the structural power of business is said to reside.

3.5.1 Negative inducement effects and the structural dependence of the state on capital

The phenomenon of economic voting and its anticipation by policymakers is at the heart of theories of the structural power of business. Essentially, these theories claim that even if capitalists would not engage in any political action at all, public policy would nonetheless be systematically biased in favour of their interests. The prime exponent of this strand of explanation of business political power is the theory of the structural dependence of the state on capital. This theory asserts that democratic state action is ultimately constrained by macroeconomic parameters that are in turn largely determined by allocative decisions made under private – that is, capitalist and consumer – prerogative. Usually cast in the context of redistributive taxation and social-democratic welfare politics, the theory asserts that the negative effects of redistribution on the share of profits consumed by capitalists lead to disincentives for investment followed by the whole appendage of sluggish growth, unemployment, and decreasing tax revenue. As noted above, it is widely acknowledged that policymakers’ legitimacy and electoral success depends on good economic performance. In anticipation of any negative economic effects of policy and their electoral and fiscal consequences, policymakers therefore tend to carefully avoid any policy that affects the revenue prospects of business. Instead, politicians are concerned to maintain business confidence by all means.

Contrary to this commonplace notion, Przeworski and Wallerstein show that, using the right tax measures, a pro-labour government can redistribute income in an egalitarian manner and simultaneously keep the rate of investment unchanged, if not even increase it (Przeworski and Wallerstein 1988, 18). Thus, so far no structural dependence of the
state on capital exists. However, things look different once we take into account that any such redistributive tax measure will have to change an existing status quo. In order to preserve their current consumption share of profits, capitalists that anticipate or attribute some positive probability to a future tax increase on their private income will reduce investment in the period prior to the change coming into effect. Unless the government is willing to incur the consequences of disinvestment, it will avoid the redistributive reform. Thus, through firms' anticipation of future threats to shareholders' consumption, the state is dependent on capital in the selection and pursuit of its policies. Przeworski and Wallerstein's model predicts that egalitarian changes to the wealth and income distribution in capitalist democracies are impossible without negatively affecting investment. As a result, the political preferences and economic interests of the owners and managers of capitalist enterprise enjoy over-proportionate consideration in the formulation and implementation of public policy, even if they abstain from direct political activity (see Przeworski and Wallerstein 1988, Swank 1992). All that it takes for business preferences to prevail in politics is that capitalists go about their business as usual. In the words of Przeworski and Wallerstein (1988, 12).

The effective capacity of any government to attain whatever are its goals is circumscribed by the public power of capital. ... It does not matter who the state managers are, what they want, and whom they represent. ... Capitalists do not even have to organize and act collectively: it suffices that they blindly pursue narrow, private self-interest to sharply restrict the options of all governments.16

Capitalists' power over investment and employment thus leads to their de facto domination of the political process. The partisan composition of governments does not matter, as government agents are constrained to act, not at the behest, but effectively on behalf of a ruling class (Miliband 1977, 74). I call this claim the classic theory of business' structural power. It is central to structural Marxist theories of the state in capitalist

16 Contrast this statement with Bentley's account, quoted above, according to which the activity of the directors of a capitalist enterprise only becomes political when they 'finish their ordinary business and turn ... to discuss the part the corporation will take in the next political campaign.' In the structural dependence thesis, it is precisely this 'industrial or economic' activity that exerts important effects on political phenomena.
society (e.g. Poulantzas 1973), but it is also compatible with neoclassical economics (e.g. Becker 1983, Stigler 1975). The social and political implications are considerable. If the theory is true, democratic politics is a mere sham (Bowles and Gintis 1986). The familiar remedies for curbing the political influence of business in the more overt arenas of pressure politics outlined above, such as tighter controls on corruption or the reform of campaign contribution legislation and asymmetrical lobbying would be largely futile. Furthermore, reformist policies designed to alleviate the most serious side effects of capitalist market economies are severely constrained. Social inequalities will be impossible to overcome by any political strategy short of abolishing the capitalist system (Miliband 1969, 152). At any rate, the pluralist claim that business is just another interest group alongside others such as trade unions or environmentalist groups can no longer be upheld.

One version or another of the theory of structural state dependence is often invoked when other explanations of business influence over public policy fail. For example, in their detailed study on corporate PACs in the US, Clawson, Neustadt and Weller regularly refer to the importance of ‘the wider power and influence of business’ (Clawson, Neustadt and Weller 1998, 23) or a ‘constraining field of power’ (ibid., 196) for corporate political action to work. Yet they do not clarify what exactly these factors are or how they work. We find similar recourse to systematic biases and structural constraints of various kinds in the community power debate of the 1960s and 1970s, which has since left the conceptual apparatus of democratic theory in a state of ontological disarray (Haugaard 1997, 9-22). I already referred to Lukes’ (1974) notion of a ‘third dimension’ of power, which has widened the scope of democratic theory’s concern with political power towards the possible inclusion of unobservable phenomena. On closer inspection we find that Lukes’ account of third-dimensional power is actually made up of two precarious theoretical claims. Lukes’ first version of third-dimensional power denotes the capability of powerful elites to induce in others beliefs, preferences, or wants that run counter to their ‘real’ interests. I have dealt with the problems attached to this line of reasoning in the previous section (3.4). Lukes himself seems to be have been aware of the substantial difficulties of an account of third-dimensional power as intentional ideological domination. Therefore, he offers an alternative, non-intentional foundation of third-dimensional power when he refers to ‘the bias of the system’ and ‘the socially structured practices of institutions’ (Lukes 1974, 21-2). Instead of explaining
what exactly we are meant to understand by such a structurally and institutionally in­duced bias, however, Lukes directs his readers to the insights of structural Marxism and to Schattschneider’s notion of the mobilisation of bias (Lukes 1974, 51-5; Schattschneider 1975, 30).

Structural Marxism, in turn, approaches the question from the opposite end, starting from the premise that there is a ruling class and that the state in capitalism fulfils functionally beneficial tasks on behalf of capital. The major challenge for structural Marxists, therefore, has been to account for instances in which the state acts relatively independently or autonomously from the immediate preferences of the owners and managers of capital. Taken to its logical consequences by Poulantzas, this quasi-functionalist version of the Marxist theory of the state asserts that the state fulfils a global role as the political organiser of the bourgeoisie in the social formation that is capitalism (Poulantzas 1973, 279-295). In this view, whatever the state does is by definition functionally beneficial to the interests of the capitalist class, even if the state’s actions contravene the expressed preferences of business.

However, Poulantzas offers no answer to the question why the policies imposed on the capitalist class against its will are nevertheless guaranteed to be in that class’ long-term interest (van den Berg 1988, 356-7). Furthermore, Poulantzas is unable to explain why and how the capitalist state, though it has the ability to override the opposition and resistance of the capitalist class, is nevertheless constrained to serve the long-term interests of that class only (ibid.). Poulantzas’s explanation here rests on the determinate character of the historical formation of capitalism. For Poulantzas, the relation between the bourgeois class and the State is an objective relation. This means that if the function of the State in a determinate social formation and the interests of the dominant class in this formation coincide, it is by reason of the system itself (van den Berg 1988). Admittedly, one feels compelled to agree with van den Berg on the point that this is a somewhat tautological argument, which at any rate is wholly unfalsifiable (van den Berg 1988, 357).

The analytical response to Poulantzas’ structuralist theory of relative autonomy likewise presumes an identity of interests of the managers of the state and capital before proceeding to look for reasons why the bourgeoisie has abdicated from directly exercising
political power itself (Elster 1985). Yet, far from providing grounds as to what should reassure the bourgeoisie that government policy will, on average, be ‘good enough’ for its interests, Elster (1985, 422) suggests that the state, out of self-interest, is constrained to very closely follow the policies that are optimal from the point of view of capitalists. This, of course, brings us back full-circle to the problem of the structural dependence of the state on capital. It is because of this structural dependence, that, in Block’s (1977) words, the ‘ruling class does not rule.’ Conceiving of the ruling class as the bourgeoisie in the Marxist sense, for Block this class simply does not have to rule, because, constrained by their structural dependence, relatively autonomous state managers can be sufficiently relied upon to make decisions broadly in line with the needs of capital. The autonomy of state managers, as the theory of structural state dependence tells us, is only relative because their own political survival depends on the accumulation process, with a healthy economy guaranteeing adequate state revenues and political legitimacy and support. Because major investment decisions in a capitalist system are usually private, public officials cannot risk a capital strike by proposing policies that threaten the owners of capital. This constraint has also become known as the ‘business confidence factor’ (Block 1977), or the ‘privileged position of business’ (Lindblom 1977, 170-188).

In its focus on redistributive political and class cleavages, the theory of the structural dependence of the state on capital also features as a general theory of the structural power of capital. The structural constraints on political action apply not only to the state, but can also be shown to rigidly constrain labour unions’ bargaining power for higher wages. Przeworski and Wallerstein (1988, 15-16) show analytically that labour unions cannot push their share of the product beyond a certain point at which capitalists will withdraw capital from investment and reallocate it toward their consumption. As with the constraints on state action, while no prohibitive constraints are present in static settings, the problem is a dynamic one. And again, in one form or another, this familiar argument is frequently used as part of the rhetorical repertoire of political and economic actors left and right. In times of global capitalism, the claim is sometimes stretched to mean that trade unions as we know them will disappear from the political landscape. The CBI director-general, Digby Jones, recently warned that, unless the unions reformed and became more flexible, ‘the very people they are paid to protect are the people who will suffer most’. According to Jones,
The unions face stark choice. Either recognise the competitive demands of the 21st century, reform, put training as your top priority for employees – and, by encouraging flexibility – help the nation with the battle for competitiveness. Or wither on the vine of growing irrelevancy.\textsuperscript{17}

The classic theory of business' structural power is mostly applied in the context of redistributive taxation and social-democratic welfare politics (see for example Quinn and Shapiro 1991, Swank 1992, Williams and Collins 1997). Yet, the same kind of constraints apply to other policy areas as well. In its generalized variant the theory of the structural dependence of the state on capital predicts constraints on all policies that could adversely affect business' revenue prospects and investment behaviour. Often overlooked by studies on structural power, the constraints on public policy that result from the interaction of centralized, authoritative decisionmaking by policymakers with the decentralized, allocative decisions of private market actors apply to non-distributive policies as well. As Sunstein (1998) has shown, the aggregate outcomes of the decentralized responses to authoritative decisionmaking can have unintended consequences that render measures of public policy inefficient, reverse their intended effects, or even avert their very formulation in the first place should the policymaker anticipate such adverse reactions. Elaborating this problem in the context of risk regulation, Sunstein distinguishes between risks that the government is trying to control by means of regulation ('regulated' risks) and the risks that are increased by the same regulation by way of unintended side-effects ('ancillary' risks, Sunstein 1998, 235-6).

Examples of this pervasive problem in risk regulation abound: fuel economy standards, designed to reduce environmental risks, may make automobiles less safe and in that way increase risks to life and health; regulations designed to control the spread of AIDS and hepatitis among health care providers may increase the costs of health care, making health care less widely available and thus costing lives; government bans on the manufacture and use of asbestos may lead companies to use more dangerous substitutes (Sunstein 1998, 235-6). Similarly, Peltzman argued earlier that safety and efficacy regulation on drugs may backfire by thwarting innovation and research on new and improved drugs (Peltzman 1973). The US Office of Management and Budget regularly

\textsuperscript{17} 'CBI chief dismisses unions as irrelevant', The Guardian, 3 September, 2004, p. 22.
estimates the cost of regulations and calculates the cost per life saved that would result from their adoption. Using such cost effectiveness measures, some programmes, such as seatbelt standards in cars and benzene exposure limits for workers are orders of magnitude cheaper than others, such as banning land disposal of hazardous waste or setting formaldehyde exposure limits for workers (Kraft 1996, 167). The essential commonality at the core of structural state dependence and the complex of regulated-cum-ancillary risks identified by Peltzman, Sunstein, and others is that the policy in question has unintended, though in principle foreseeable, negative consequences that may outweigh the benefits. Furthermore, both phenomena occur irrespective of any intention on the part of the regulated to undermine the desired effect of policy. Rather they result from the structure of the capitalist organisation of the economy via the decentralized and uncoordinated responses to the policy by utility-maximizing agents who have no evil agenda on their minds but to pursue their legitimate cost-minimizing strategies. In the language of structural state dependence, these agents 'blindly pursue narrow, private self-interest' (Przeworski and Wallerstein 1988, 12). Thus, I henceforth refer to the structural constraints on public policymaking that arise from either structural state dependence or ancillary risks as negative inducement effects.\(^{18}\)

The structurally privileged position of business that is thus said to derive from the problem of negative inducement effects is closely related to Mizruchi’s (1992) concept of ‘structural equivalence.’ Recall from the discussion of elite networks above (3.3.) that business is a formidable political actor to the extent that individual businesses react in the same manner to a policy change. Regardless of any intention on the part of business to act with one voice, their structurally equivalent position with respect to the policy will induce individual enterprises to act in a similar way. If the outcomes of the emulated actions of these structurally equivalent actors undermine or contradict the intended effect of the policy, or are otherwise of disutility to the policymaker, the mecha-

\(^{18}\) Note that my concept of negative inducement is somewhat analogous, but not similar to, Wilson’s negative inducement in the context of bargaining scenarios. For Wilson (1961, 292), a negative inducement is given ‘if action in accordance with A’s intention, although no more attractive absolutely than before the change was made [by A], is nevertheless more attractive [to B] relative to the other possibilities that now exist.’ That is to say, A generates negative inducements for B to choose Y if he makes Y even more unattractive for B than X, even though X may already be quite unattractive in absolute terms.
nism in question produces exactly the type of negative inducement effect at the centre of the structural dependence of the state on capital, or of Sunstein’s ancillary risks outlined here. The anticipation of these negative inducement effects on the part of policymakers leads to political power on the part of business, because power is ‘the ability to affect the behaviour of others, whether or not such behaviour is intended or foreseen’ (Mizruchi 1992, 51, original emphasis).

To sum up, policymakers’ popular standing with electors and their chances for reelection depend on two principle factors. The first of these factors is a thriving economy. The economy, in turn, affects the utility of elected policymakers in two ways. Firstly, the well-being of their constituents is directly affected by the national economy’s performance, and citizens use the state of the economy as an information shortcut for judging the quality of political office holders. Thus, if economic performance is unsatisfactory, policymakers are likely to be punished by electors. Secondly, at its most fundamental level, the very economic existence of the state ultimately depends on the economy and its performance (cf. Hyland 1995, 243-244). Less dramatically, but nevertheless immensely importantly, every governmental policy program requires funds, and is thus in principle affected by the availability or otherwise of sufficient tax receipts. Policies that lead to negative incentives for economic activity curtail the tax base and may thereby undermine the policymaker’s chances to achieve their various other policy goals (Block 1977, 15).

Both factors concern the ability of policies to achieve their intended effect without creating too many or too severe undesirable side-effects. Similarly to the economic dependence of the state on capital, policymakers will suffer electoral consequences if the unwanted side-effects of their policies outweigh the benefits. The extent, likelihood, and severity of negative inducement effects depend on the responses from private actors.

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19 One might add that an additional reason for policymakers to avoid policies with negative economic inducement effects is the fact that reduced surplus generation in the economy shrinks the resource pool from which monetary contributions to policymakers and candidates can be made. The history of business political action across the world, however, does not suggest that this constitutes an important link between the fortunes of capital and policymakers. Even during times of extremely bad economic performance and profitability, such as the Great Depression from 1929 to 1933, business has always managed to come up with the funds required for ambitious political action.
Because businesses have control over the allocation society's capital, their responses are particularly important. Policymakers depend on their policies to work, and the responses of businesses to these policies are major determinants of their success. Castles (1982) points out that in order to make successful policy, governments rely on the right kind of behaviour by firms, investors, consumers, etc. Thus, in capitalist democracies, the 'wrong' political or regulatory measure can upset the conditions under which private enterprises are expected to deliver their contribution to the factors determining the fate of elected policymakers. Policies harming the interest of capitalist enterprise may trigger negative inducement effects to the detriment of both business and the government. In this way, the interests of the state and its incumbent rulers are inextricably linked to business interests. If this link is disturbed through negative inducement effects, policymakers have to suffer the consequences, which, depending on various factors such as the gravity of the effects, can range from losing a few votes at the next election to widespread alienation, social unrest, and upheaval.\footnote{While the present analysis is about capitalist democracies, it is worth noting that the logic of negative inducement effects also applies to non-democratic forms of political organisation. In dictatorships, good economic performance is negatively correlated with coups, riots, rebellions, and revolutions (see Londregan and Poole 1996).}

3.5.2 Negative inducement effects and environmental policy

An oft-heard criticism of environmental policies is that environmental gains come at too high a cost, where costs are often represented in money, jobs, and growth. Protection of the North American spotted owl was once said to cost between 20,000 and 140,000 jobs, mainly in the timber industry (Bezdek 1993). The American Petroleum Institute blames environmental restrictions for the loss of 400,000 jobs during the 1980s. The US Motor Vehicle Manufacturers Association argued that increasing fuel economy standards would cost 300,000 jobs, an assertion repeated by former US Vice President Dan Quayle during the 1992 campaign (ibid.). Sugar growers in Florida said protection of the Everglades would cost 15,000 jobs locally (ibid.). US mining companies claimed that legislation to reform the 1872 Mining Law could cost 47,000 jobs in an industry that suffered a 51 percent loss of its jobs between 1979 and 1992; the Bureau of Mines estimates that only 110 jobs would be lost as a result of this reform (ibid.). Christiansen and Haveman (1981) and Gray (1987) assert that environmental regulation was a sig-
nificant contributor to the US productivity slowdown of the 1970s. But the price to be paid for environmental policy in this view does not always have to be of an economical kind. Other negative inducement effects are regularly invoked in debates surrounding the efficiency of environmental policy. Wildavsky (1995), for example, claims that by 'searching for safety' and favouring governmental regulations that constrain economic investment and growth, environmentalists actually cause the population to be less safe. In the context of environmental policy, the frequently invoked trade-off between jobs and clean air is just a special case of the more general problem of negative inducement effects.

On the other hand, the now famous 'Porter hypothesis' claims that environmental progress can be achieved without sacrificing competitiveness (Porter 1990, Porter and van der Linde 1995). Similarly, Jaffe et al. (1995) point out the productivity enhancing effects of environmental regulation as it induces firms to install cleaner, more efficient technologies. Similar arguments are promoted by the OECD (1996). Portney suggests that 'wise' regulations are those that pass a kind of common-sense, cost-benefit test (Portney 1994, 22-23). Kraft (1996, 166) points out that some very stringent environmental regulations – such as the removal of lead from gasoline and the phaseout of chlorofluorocarbons (CFCs) as a propellant in spray cans – could easily survive such a test, while others might not. The adoption of environmentally benign technologies and encouragement of energy efficiency, source reduction, waste recycling, and similar efforts will improve employment because they tend to be more labour intensive than the polluting technologies and practices they replace (Paehlke 1994; Renner 1991).

These historical examples illustrate also, however, that error-free evaluation can really only be made with the benefit of hindsight. It is important to recall in this context that both the CFC and leaded car fuel phaseouts drew severe criticism from the affected industries when they entered the legislative agendas in different countries. The arguments put forward by industry made it clear that these policies would specifically not pass the test suggested by Portney. Over the long run, environmentalists maintain, policies that produce environmentally sound and efficient technologies and processes are also the economically most efficient ones, particularly if the full cost of environmental damages is part of the equation (Kraft 1996, 171). However, there are often short-term economic
advantages to weak environmental laws, as debates over the North American Free Trade Agreement and other international trade regimes have highlighted (ibid.).

None of this is to say that society does not from time to time have to face some real tradeoffs between environmental regulation and other goals. Money spent on the environment is not available in the short term for other social purposes such as education, health care, or infrastructural investment. Not even the promise of sustainable development can entirely eliminate such choices, however much it might point to myriad ways to better reconcile environmental protection and economic growth in the long run (Kraft 1996, 166). The tradeoffs often become starker as environmental policy deals with marginal gains in environmental quality (Tietenberg 1994). Of course, many environmentalists would object on ethical grounds to evaluating environmental policy choices in terms of economic cost-benefit analyses (Sagoff 1988). At a less fundamental level, they would question whether any economic calculus measures and weighs adequately all relevant costs and benefits, since the benefits are typically harder to estimate and society may heavily discount long-term benefits.

Business regularly complains that policymakers overregulated their activities in an irrational effort to reduce miniscule risks to public health and the environment, thereby imposing unnecessary burdens on individual firms and the economy as a whole (Kraft 1996, 157). Workers in those industries and the communities in which they live often blame environmental policies for threatening their livelihood (Kraft 1996, 157). There are winners and losers in policy choices, and each side will take an active interest in evaluations that may maintain, alter, or eliminate programmes affecting them (Kraft 1996, 159). In these situations, policymakers engage in a cost-benefit calculus with respect to the support they enjoy from constituencies, the electorate, and business. Often, but not always, the latter will weigh heavier in the utility functions of policymakers. As Dryzek (1987) put it, ‘[T]he structural constraints faced by states in capitalist societies do not totally preclude effective policy commitments to environmental protection. But there remain good structural reasons why the environmental struggle is and will remain an uphill one.’

3.5.3 Critique of the structural theory of business political power
There are a number of problems with the structural explanation of business political power. Firstly, from an empirical vantage, if the structural power thesis holds, we should rarely witness policy change over time that overrides business complaints regarding the detrimental effects of a policy. However, instances of business failing in the policy struggle are frequently observed. Business sometimes does lose! (Mitchell 1997, Smith 2000). Students of public policy have often found political outputs discordant with industry interests in, for example, consumer protection (Pertschuk 1982), environmental protection, occupational safety and health (Scholtz and Wei 1986), financial regulation (Worsham 1997), public lands policy (Culhane 1981), and insurance regulation (Meier 1988).21

Secondly, another central implication of the structural power thesis, the claim that the partisan composition of governments does not matter for political outcomes, also does not survive in the light of empirical evidence. On the one hand, there appears to be a process of convergence of party platforms under way. Thus, Caul and Gray find that the ideological distance between left and right-leaning parties decreases over time in ten out of fifteen nations in their analysis (Caul and Gray 2000, 212). While being more pronounced in countries with majoritarian electoral system such as Britain, Canada or Australia, ideological convergence also takes place in proportional representation systems such as the Netherlands, Belgium or Germany (ibid.).

On the other hand, however, convergence of positions is not the same as convergence of output. Garrett (1998), for example, finds that the partisan composition of government affects levels of government spending under different constellations of domestic political conditions and degrees of integration into global markets. He finds that left-leaning governments always outspend rightwing governments. Furthermore, and contrary to much lore about the political effects of globalisation, Garrett finds that the spending lead of left-leaning governments increases with global economic integration (Garrett 1998, 74-105).22 Quinn and Shapiro (1991), find that partisan change in the US has

21 For further examples of industry defeats in struggles over public policy, see MacAvoy 1992.

22 Re-estimating Garrett’s counterfactual analysis using superior simulation techniques, King, Tomz and Wittenberg (2000) falsify his claim that left-leaning governments always outspend rightwing govern-
noticeable effects on the country’s tax policies. Finally, the notion that parties matter has, at least until recently, been shared by business representatives themselves. Whether warranted by political realities or not, business leaders overwhelmingly believe that Social Democratic or Labour governments are bad for the economy, while right-leaning and business-friendly parties are expected to do a much better job in that regard (Grant 1993, 137-138).

Thirdly, due to their emphasis on structural determinants, theories of structural dependence cannot accommodate the ubiquitous political activity of business. The question inevitably arises why, if their interests are automatically (i.e., ‘structurally’) taken care of, would capitalists waste time and money on politics in the first place? After all, the principle goal of business is economic success, not participation in politics (Mitchell 1997, 11). To be sure, even if the interests of business writ large carried the day in politics, much lobbying would still occur because different sectoral interests would vie for special favours and lobby in competition with other sectoral capitalist interests (cf. Smith 2000, 13-7). Moreover, even a pro-business government that aims foremost to promote the interests of business as a whole will inevitably find that ambition thwarted by the fractionalisation of the political interests of business. Businesses that feel at a disadvantage as a result of a policy may take action to persuade governments of problems resulting from that policy for their particular interests or even the general interest of society. However, we should witness far less business political action directed against policies claimed to harm business per se, such as environmental protection measures or social-democratic redistribution programs, than we actually do. In an analysis of 137 legislative issues lobbied by US interest groups in 1995-96, Baumgartner and Leech (2001) found, firstly, that the majority of cases involved only a small number of lobbyists and, secondly, that the most frequently active lobbyists represented business.

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23 With respect to environmental policy, it is often observed that environmental measures are successfully obstructed by established actors. Where, for example, energy-saving technology cannot assert itself against the electricity suppliers, environmental protection is usually blocked (Jänicke 1992, 55).
Thus the ‘veto power’ of capital based on the private control of investment does not seem to ensure that the state will act in the interests of the capitalist class (Domhoff 1998, 63-65). Business leaders themselves certainly seem to believe that their structural power as such does not suffice to induce politicians to treat their interests favourably. When a researcher suggested to him that his company probably had enough economic power to dispense with its efforts to influence elected officials, a top corporate leader replied ‘I’m not sure, but I’m not willing to find out’ (quoted in Clawson, Neustadtl and Scott 1992, 121). It appears that, rather than there being something inherent in the structure of the state or in the wisdom of state officials that guarantees the interests of capital will be served, capitalists often must work hard to achieve their goals (Akard 1992, 599).

Fourthly, from a theoretical viewpoint, the assumption that democratically elected policymakers face only the kind of constraints transmitted by the electoral effects of macroeconomic performance seems unrealistic. Politicians use ideology as an efficient way to communicate their goals and platforms to voters (Downs 1957, 100-12). They are therefore compelled to be somewhat ideologically consistent. One of the fundamental problems faced by voters is to determine which candidate will best serve their interests in an environment where much of the necessary information is simply unavailable (Ferejohn 1990). According to Downs, a voter ‘knows that no party will be able to do everything it says it will do. Hence, he cannot merely compare platforms; instead he must estimate in his own mind what the parties would actually do were they in power’ (Downs 1957, 39). In trying to estimate what a candidate will do if elected, voters must consider veracity, ambiguity, and feasibility (Downs 1957, 39). To this end, they can get cost-efficient clues about the quality and position of candidates by observing, firstly, the announcement, pledges, and promises that political candidates make, and, secondly, the track record of politicians with respect to honouring past pledges. According to the original Downsian model of voter behaviour, a voter evaluates the policy outcomes that a candidate would likely produce in office rather than merely the policy platform that a candidate announces. Voters may thus be able to estimate what parties will do from their platforms (Downs 1957, 99) because parties have incentives to be honest and reliable, and to do what they promise. If they defect on promise redemption, voters will not trust the party’s platform in the future because the platform offers little basis for predicting the party’s performance in office (Hinich and Munger 1997, 74-75). For the sake
of their credibility and reputation – both are invaluable assets in electoral competition – elected officials have strong incentives to adhere to their ideological self-labelling and deliver on their pre-election pledges (Hinich and Munger 1994; McGann 2002, 51-57).

Political parties, therefore, seek to enact their declared policy preferences (Budge and Keman 1990, 34). During the 1997 and 2005 British election campaigns, the Labour party even formalised this incentive by introducing ‘pledge cards’, inviting voters to check the party’s pledge redemption record in detail. Business lobbyists are aware that these incentives may lead policymakers to enact policies that harm their interests. In the words of one lobbyist, ‘this is why it is so important for an organization like ours to keep our foot in the door no matter who is in government; because they would all have their own agendas otherwise.’

3.6 Conclusions
The classification of research on the political power of business into the four categories of (neo-)pluralist group theory, network approaches, ideological domination, and structural theories is of course an ideal-typical one. Not all research done to date can easily be assigned to one or other of the four categories. For example, scholars working within a group framework of reference are by no means unaware of the fact that policy struggles are broadly constrained by the economic and political structures in which they take place (e.g., McFarland 1991). Conversely, identifying these institutional and structural constraints does not prevent scholars working within a structural framework from carefully studying the political processes through which resources are mobilised and coalitions formed over specific issues (Akard 1992, Mizruchi 1992).

24 The information clues from platforms and the resulting incentives to redeem election promises are somewhat compromised by institutional factors. Differences between what candidates announce and what they are likely to do have many sources. One of the most important ones is, of course, the institutional environment, such as a separation of powers (Lacey and Paolino 1998). Moreover, politicians may hope that information asymmetries between them and voters enable politicians to explain away any inconsistencies between campaign promises and performance (Downs 1957, 135-137; Lacey and Paolino 1998, 1182). Indeed, Page (1978) and Shepsle (1972) have shown that candidates have incentives to make ambiguous statements about what they will do in power.

25 Interview with the public affairs executive of the German Hotels and Restaurants Association (Deutscher Hotel- und Gaststättenverband, DEHOGA), Berlin, September 2, 2002.
However, as ideal types go, the analytic distinction is important and useful, and the most innovative attempts at explaining the scope and limits of business political power have as their point of departure the explicit acknowledgement of these conflicting modes of explanation. One such strategy has been formulated by Mitchell, who suggests overcoming the 'artificial separation' (Mitchell 1997, 69) of the non-intentional, structural power of capital from business political activity such as lobbying. As Mitchell (1997, 69) points out,

The requirements of business confidence at any point are made known through these resources [of lobbying and campaigning, P.B.]. The needs of business are not self-evident to government officials. They require articulating – by the governor of the Bank of England, the Business Roundtable, or the CEO of RJR Nabisco.

Furthermore, business faces political constraints on translating economic power into political power. These constraints arise from the perceived limits to the legitimacy of business practices (Mitchell 1997, 1). They also stem from the fact that policymakers may have political interests and agendas of their own. Nothing has been said so far about the autonomous agenda-setting power of the state. The revival of state-centred theory in the early 1980s has led some theorists to reject approaches that see political power as deriving from class location or that explain state policies with reference to economic or other societal-level phenomena (Nordlinger 1981, Skocpol 1985). Instead, the state and its officials are viewed as having their own interests as well as many of the means required to pursue them. Among these interests is, not least, the desire of state officials to maximise their own autonomy (cf. Nordlinger 1981). Coming from a Marxist perspective, Block (1977) argues that the state managers could gain a consciousness all their own and take actions that were independent of the immediate preferences of capitalists. Reminiscent of Weber's claim that the organisational apparatuses of the state are the original site and primary field of the constitution of power relations, these critics attack pluralist and structural-functionalist conceptions of politics for an overly determined view of the state and stress the independent influences of state and party structures, state managers, past policy legacies, and transnational political relations (Skocpol 1980, 1985). Not surprisingly, much of this criticism is reserved for neo-Marxist accounts of the structural power of capital.
Indeed, in democratic capitalist societies, the state holds a monopoly of legitimate physical violence. The legitimacy of this concentration of organised force is usually thought of as a ‘rational-legal’ legitimacy based on the rule of law (Weber 1964). In a sense, therefore, the state is the ultimate holder of political power in capitalist democracies. By the same token, the capitalist institutions that empower private actors such as business corporations – the market and private property – exist only to the extent that they have been created by acts of political authority. The allocation and distribution of factors, goods and incomes through markets is neither a natural order of affairs nor something that arises spontaneously and reproduces itself automatically in the absence of political authority (Polanyi 2001). For markets to exist and operate, effective rights of private property have to be in place. The origins of these rights will, in turn, not be found in any set of moral principles or ‘laws of nature’, but are the outcome of essentially economic and socio-political processes. According to Sened (1997, 1), ‘the origin of private property and related individual rights is to be found in the political institutions that grant and enforce them. … [P]roperty rights are instituted through a political process and not by any hidden, ‘market’ forces’. This implies a fundamental contingency of property rights and, by implication, of markets. Institutions and the rights they promote are unlikely to survive unless they are designed and enforced by central agencies with some monopolistic power over the use of force – i.e., governments (Sened 1997, 3). This echoes the Hobbesian theme of the logical priority of authority over economic rights: ‘where there is no coerceive Power erected, that is, where there is no Common-wealth, there is no Propriety’ (Hobbes 1996 [1651], 101).

Thus, the ‘invisible hand’ of market capitalism depends on the very visible hand of law enforcement as an ally. While the content and scope of property rights might undergo

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26 Where this condition is not satisfied, scholars nowadays speak of ‘failed states’, where non-state actors have successfully challenged the state’s monopoly claim to physical coercion (Herbst 1996). Well-known examples include post-invasion Afghanistan and Iraq, Liberia and Somalia. Yet besides these cases of open civil war and outright collapse of effective statehood, we also frequently witness the gradual erosion of the state’s monopoly of legitimate physical violence. Examples include inter-war Germany, where armed and uniformed private armies and militias challenged the state’s monopoly over the use of coercive force, as well as present day Ireland, where private security firms effectively outnumber the security forces of the state.
redefinition at the hands of legislators, assurance of formal continuity is essential to the functioning of the market system (Polanyi 2001, 243). Governments produce property rights and markets in return for political and economic benefits. Every government, democratic or authoritarian, depends on some level of popular support and on economic resources in the form of tax revenues. It is the anticipation of inefficient production in an environment without property rights that leads governments to grant these rights to induce more efficiency and productivity, in the hope of making tangible benefits from excess productivity through increased tax revenues and enhanced political support. This is why non-state actors, and, in capitalist democracies, business actors in particular, matter to an extent that is insufficiently acknowledged by state-centred theory.

Combining the claim that the political-economic system of democratic capitalism is structurally loaded in favour of business with the claim that business can still lose, Mitchell formulates a theory of 'calculated heroism' to explain why, given their structurally privileged political position, superior political resources and control over the media, business interests nevertheless from time to time incur political loss (Mitchell 1997, 167-189). Facilitated by external events such as scandals or catastrophes, non-business interests and policymakers can sometimes succeed in creating an environment that is conducive for policymakers to embark on a 'fit' of heroic policymaking (Mitchell 1997, 10). In these situations, policymakers are able to temporarily override the business confidence factor and the negative inducement effects commonly attributed to such disregard. Unlike Vogel's (1989) theory of cyclical patterns of public support for business, business legitimacy varies not so much cyclically, but rather as a function of irregular, shock-like perturbations to the political climate within which business operates.

This leads Mitchell to suggest that the business confidence factor is a conditional, rather than a constant factor in politics (Mitchell 1997, 61). He suspects interruptions to the structurally induced routine of acceding to business demands to be more likely to occur when policymakers discount business interests' impact on public support either against other factors affecting support or because they have reason to interpret economic performance differently (Mitchell 1997, 78). However, Mitchell stops short of developing a model in which the key independent variable – the public perception of legitimate business interests – is conceptualized in a systematic manner. Instead, his theory relies on exogenous shocks that upset the political routine to temporarily offset an otherwise firm
grip of business structural power over public policy. In the next chapter, I develop some of the implications of Mitchell’s ‘post structural view of business confidence’ further to outline how I believe a systematic account of business’ political power and its limits can be provided.
4 An Informational-structural Model of Business Political Power

When an industrialist, already making more money than in the previous decade, came to see us to ask permission to put his prices up, my staff and I would quiver our index finger and the next one to it on the desk, as a sign to each other that the guy was talking horse shit.

John Kenneth Galbraith

4.1 Introduction

The review of the literature on business political power in the previous chapter has been guided by the view that the question of why business fails in the policy struggle is complementary to the question of why business has so much influence over policy (Mitchell 1997, 7). I reviewed four distinct theoretical explanations of the sources and limits of the political influence of business and found that none of them provides a fully satisfactory account of the problem of business political power. In the present chapter, I outline how the unfruitful dichotomy of structural economic determinants versus corporate political action can be overcome. Start by looking carefully at what happens when business representatives lobby policymakers. With Caldeira, Hojnacki and Wright (2000), we can distinguish three broad categories of lobbying activities: position taking, grassroots mobilisation, and gathering and transmitting information (i.e., purchasing advertisements, conducting research, providing information to the mass media, distributing leaflets, and sending special mailings to organizational members). They have found evidence that groups’ choices of lobbying tactics have less to do with organisational structure, resources, or the political context of the campaign. According to these

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27 Interview in The Guardian, 14 August, 2004. Galbraith and his staff at the Office of Price Administration during the Second World War drew inspiration for this signal from observing a colony of hungry ants, antennae quivering with excitement at the sight of a pile of horse manure in the street.
scholars, lobbying 'is about winning politically and doing whatever is necessary to do so' (Caldeira, Hojnacki and Wright 2000, 52).

Very often, lobbying involves the strategic dissemination of information: 'we expect lobbyists to provide whatever information will be most effective in influencing legislators' decisions, and that legislative success frequently requires that groups provide both electoral and policy relevant information' (Caldeira, Hojnacki and Wright 2000, 53). In this chapter, I argue that the strategic dissemination of policy-relevant information is an important lobbying strategy for business. From the perspective of lobbying as strategic information transmission, the success and failure of business political action can be determined in the context of structural constraints from negative inducement effects. I outlined above (3.6) why authoritative political decisionmakers availing of some degree of autonomy from societal interests nevertheless depend on some minimum degree of economic and political support from those actors. Here I will add to this dependence the fact that autonomous policymakers need information to translate their political preferences effectively into political reality.

Information on the size and likelihood of a policy's negative inducement effects is not readily available to policymakers. Businesses, however, often have accurate private information, i.e., information known only to them, on this. It is here, where special interests can acquire leverage over policymaking even if the state has an otherwise high degree of autonomy. It is useful in this context to employ Coleman's notion of 'political potential', which refers to those characteristics of interest groups that allow them to convert whatever economic power they may have into political power. Political potential can be represented by a range of factors including the size and density of a group's membership, the size and source of its budget, the professional expertise of its the staff, and its control of specialised information (Coleman 1988, 58, own emphasis). These variables enable an interest group to gain access and develop legitimacy with policymakers by providing briefings, technical expertise and analysis to politicians who lack the resources or the time required to collect, analyse, and interpret vast amounts of policy-relevant information on their own. (Grant 2000, 78). In this way, special interest groups derive influence from their control of information and their acceptance as a 'policy insider' (ibid.). Based on the idea that businesses utilise commonly shared knowledge on the need for governments to observe business confidence as an instru-
ment of their lobbying strategies, Bernhagen and Bräuninger (2005) have developed a signalling model of corporate lobbying in democratic capitalist states. Below (4.4) I explain that model and discuss its implications for the extent and limits of the political power of business. But first, I will explain why the assumption of asymmetric information is plausible in the context of business lobbying.

4.2 Information asymmetries between business and policymakers

In section 3.4 of the previous chapter I discussed the theory of negative inducement effects and the structural power of business that flows from them. An important observation concerning the interaction between centralised authoritative decisionmaking and decentralised responses by private actors is that some, but not all policies will lead to negative inducement effects. From a business perspective, however, even low-cost policies entail costs. Typical examples are compliance costs of meeting newly imposed environmental standards, as well as those pertaining to health and safety at the workplace, or policies aimed at putting an end to discrimination against the disabled. It is in the interest of cost-minimising actors, such as firms, to avoid these costs. Furthermore, firms often do not know themselves with sufficient degree of precision just how big the costs associated with a new policy are. And part of their overall efforts to minimize costs, firms permanently strive to reduce the regulatory uncertainty permeating their operational environment (Bimbaum 1984). Thus, it will be in their interest to 'play it safe' and locate their estimates of expected costs on the high end. Referring to the European Working Time Directive and to a number of European and Irish employment equality laws, one lobbyist said:

I think it is fair to say that some of those regulations might not have quite the negative impact that we felt they would have, but at the same time there are other side effects that are unforeseen, like this record-keeping provision that might be looked upon in seven or eight years as being a big problem for companies. Whereas in one issue it's maybe not as bad as feared, in others it's that we really didn't anticipate what might later become a big problem.28

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28 Interview with an executive of the Irish Business and Employers Confederation (IBEC), Dublin, October 4, 2002.
Thus, when communicating their views on the costs of policy to policymakers, business lobbyists have incentives to misrepresent the size and magnitude of negative inducement effects. In environmental politics, for example, exaggerated predictions of negative inducement effects are pretty much the norm. While business representatives tend to characterize many a new piece of environmental policy as 'economically unsound', many of the doomsday scenarios painted by industry in retrospect turn out to be exaggerated and sometimes wholly unfounded (Haq et al. 2001, Sanchez 1997). For example, the CBI stated in February 2005 that '[c]ompanies will go abroad if extra costs are imposed here that are not imposed abroad.' When pressed to verify these claims before the House of Commons' Environmental Audit Committee, the CBI director-general, Digby Jones, proved unable to name a single company that had relocated abroad as a consequence of environmental regulations.\(^{29}\) The problem for policymakers is that they often lack the information necessary to assess the veracity of business' assessment of a policy's negative inducement effects. I will now outline the reasons for this lack of sufficient information.

4.2.1 Policymakers' information problems

The members of society are affected by the policy and by the state of the world on which these decisions impact. Therefore, individuals' preferences over policies are a function of the state of the world (Lohmann 1993, 319). A policymaker who is perfectly informed about the state of the world and voter preferences will set policy in an unbiased and efficient way in order to maximise the welfare of her constituents and thereby maximise her reelection chances (Lohmann 1998, 810). In the real world of politics, however, the targets of policy are often better informed on issues that affect them than policymakers are. Policymakers are imperfectly informed and often have to depend on the representations of highly interested constituents through lobbying to ascertain how their actions will affect their support among voters (cf. Downs 1957, 90-92). The classic theory of the structural power of business, however, rests on the crucial, yet largely implicit, assumption that political decisionmakers recognize that the prosperity of their constituents, the tax revenue required for various government programmes, and therefore the re-election prospects of the incumbents themselves are dependent on giving business what it wants politically. In the perspective of structural dependence theory, it

\(^{29}\) 'CBI 'plays up' CO2 job threat.' The Guardian, 1 February, 2005.
often suffices for business to point out the undesired effects of a policy in order to persuade policymakers to rethink their ambitions. In the words of Lindblom,

'[o]rdinarily, [businessmen] need only point to the costs of doing business, the state of the economy, the dependence of the economy's stability and growth on their profits and sales prospects – and simply predict, not threaten, that adverse consequences will follow on a refusal of their demands (Lindblom 1977, 185).

However, while political decisionmakers may generally be well aware of the fact that their interests are linked to the well-being of business ('it's the economy, stupid!') they will often be less clear about what exactly it is that business wants in a given situation and with respect to a particular policy area. Lawmakers operate in highly uncertain electoral environments. They have general ideas of the positions they should take to maximise their political support, but they do not avail of all the information necessary to make the right choices. Even if we assume that policymakers care about policy only insofar as they care about its consequences, information becomes valuable, and those who posses it are accordingly in a position to influence policy (Austen-Smith 1993, 799-800). As I outlined in the previous chapter, these consequences may be 'purely political' (e.g., 'how are reelection chances affected?'), or they may be technical (e.g., 'how will a revised clean air act hurt employment in the car industry?' Austen-Smith 1993, 799).

In this situation, lobbyists offer help, in the form of political intelligence about preferences of constituents or about the way in which a policy affects the welfare of constituents (Hansen 1991, 5). This is why, in spite of business' structurally privileged position, lobbying and other forms of political action are indispensable for business groups to have their interests observed and safeguarded. Furthermore, policymakers balance political support from one group against other likely sources of contributions and votes (Denzau and Munger 1986). The prominence of this balancing act ensures that, even when its concerns are in harmony with that of the policymaker, business has an incentive to overstate the importance of its position by exaggerating the electoral salience of its cause so that the policymaker places even more weight on the importance of its concerns (Ainsworth 1993, 44). Misrepresentations to the extent of outright deception are frequent. Ainsworth (1993) cites numerous examples, including an episode from the 1930s in which members of the US Congress took offence when they learned that utility
companies were having thousands of postcards sent to them by high school students who were paid to sign names taken randomly from phone books (Ainsworth 1993, 51).

Lobbying aims, foremost, at changing policymakers’ perspectives, widening the picture, introducing new evidence, or obscuring existing information. Legislators readily acknowledge that lobbyists’ influence and legitimacy stem from their private information. Ainsworth (1993, 44) quotes a US Senator’s view of lobbyists as ‘performing extremely useful functions in the national interest. They can be tapped for expert information on problems, [and] they can analyse the impact of proposed legislation of their area of concern.’

4.2.2 Business’ informational privileges

The notion of informational asymmetry depends on the presumption that some essential pieces of information can be observed by one party, but not the other (Kennan and Wilson 1993, 49). For information asymmetry to have an effect on the behaviour of the less informed, common knowledge about the existence of asymmetric information must be assumed. As Austen-Smith (1992, 47) put it, ‘for a speaker to be able to persuade the listener to act in a particular way [...] it is clearly essential that the listener believe the speaker knows something that the listener does not.’ How does business get information that others do not, or cannot have? Much of the information required for the assessment of negative inducement effects is routinely available to business and its interest organisations. Special interest groups in general enjoy some informational advantages vis-à-vis policymakers due to the latter’s capacity constraints, and because of interest groups’ own strong incentives to pool resources and routinely conduct research on issues of concern to their members. To some extent, being well-informed is a function of an organisation’s internal capacity or resources to gather information first-hand through research or direct observation (cf. Carpenter, Esterling and Lazer 1998, 428-429; Hansen 1991, 14; Austen-Smith and Wright 1992). Special interests are, in Lohmann’s (1998, 825) words, ‘naturally’ better informed:

compared to the general public, they get costless information as a by-product of their specialized activities, and they have stronger incentives to invest in costly information gathering, to pay costly attention to complex information, and to in-
vest in costly expertise that allows them to understand such information (Lohmann 1998, 825).

In the case of business the informational asymmetry goes even further. Individual firms accumulate knowledge about relevant policy issues in the course of performing their everyday activities (Carpenter, Esterling and Lazer 1998, 420-421). Political decisions are often very important for specific sectors, which provides the relevant interest groups with strong incentives to concentrate forces. In contrast, politicians have to spread their forces across a diverse range of policy areas at the same time. Firms automatically possess data as private information that is important for political decisionmaking, e.g. data about costs and demand, or technological expertise (Polk 2002, 22). And corporations are more likely to engage in research than are unions and trade associations (Schlozman and Tierney 1986). In the words of one lobbyist:

I am actually surprised how often they [ministerial civil servants] ring me up looking for information I would have assumed they would have at their fingertips. Maybe it’s just a matter of us having access to several thousand members, and they [the members] trust us, so we survey them. I think we are a good source of reliable data.30

Much of business’ private information is legally, and in many countries even constitutionally, protected. It is privately owned in the most literal sense of that phrase. Information is part of capitalist property rights over productive assets, and it is widely assumed that capitalism cannot function without this protected informational realm. The legal protection of information about production and production costs is a constituent feature of capitalism. Information that is openly accessible for purposes of taxation and auditing, however, is often insufficiently informative for policymakers. Everything else is ‘corporate secret’.

Kennan and Wilson describe the implications of business’ legally protected information realm and the resulting asymmetric information between business and unions in the context of collective bargaining and industrial disputes.

30 Interview with IBEC executive, October 4, 2002.
A firm may open its books along with publicly accessible accounting and financial statements [...] to the Union, but even so there are substantial limitations on the relevance if this kind of information. Partly this is because the past only partly reveals the future: A firm’s predictions of production demand and prices of factors and output can be manipulated (Kennan and Wilson 1993, 49).

Kennan and Wilson add further that actual production costs may be less important than opportunity costs. Unions will often be unable to assess the opportunities the firm has to redeploy its capital in other locations, product lines or industries, or substitute capital for labour (Kennan and Wilson 1993, 49).

The informational disadvantage of policymakers vis-à-vis business is widely acknowledged in the context of environmental policy. Here, some degree of industry ‘buy-in’ to policymaking is often deemed inevitable since manufacturers have essential information about product characteristics, processing technologies, and consumer demand (Garrison 1999, 127). Indeed, the need for policymakers to rely on business for assessments of the costs and effectiveness of environmental policy ex ante often leads to ‘paralysis by analysis’ (Kraft 1996, 168).

We observe similar informational asymmetries in the financial services and finance sectors. Historically, the interest groups most harmed by inflation have often sought protection by lobbying for the independence of the central bank, led by the financial sector (Goodman 1991). This sector benefits disproportionately from inflation control, while having the knowledge to persuade policymakers to adopt this policy. Other interest groups such as trade unions or exporters may oppose this reform, but are ineffective due to their lack of knowledge of this technical issue area and its likely impact on their members (Posen 1995). The financial sector has the necessary expertise to understand this complex issue area. The control of information relevant to monetary policy thus puts the actors in this sector in a powerful position vis-à-vis policymakers (Posen 1995, 256).

It is not necessary to assume that business is perfectly informed about the real-world impact of policy. All that counts is that business is better informed than the policymaker
an assumption that I believe is reasonable and that is confirmed by the statements of business lobbyists. However, the existing uncertainty of business does imply that, if in doubt, business lobbyists should hedge their bets and assess policy from a primarily conservative, that is, negative, perspective. According to the IBEC executive,

[i]t’s not about being negative for the sake of it all the time. I am sure there are plenty of cases where IBEC would be very cautious. Sometimes, it may be that what ultimately came out of the whole process mightn’t have been as bad as first was foreseen, but I guess it’s because people overestimated it genuinely. I think it’s human nature to look at what’s negative. 31

As I mentioned above, the fundamental uncertainty that remains on the side of business means that lobbyists will tend to assess policy from a primarily conservative perspective. Consider the following example of an analysis of the economic costs of environmental regulation in the US. The US Office of Management and Budget (OMB) found that the benefits to health and the economy of American Environmental Protection Agency (EPA) regulations significantly exceed the economic costs of complying with those regulations. For the entire decade from October 1992 to September 2002, the agency estimated the total annual benefits to lie between $120,753 billion and $193,163 billion, while the total costs of major federal rules amounted to between $23,359 billion and $26,604 billion (Office of Management and Budget 2003, 7, Table 2). The finding is rather remarkable, given that the OMB is part of the presidential executive office and has historically proven to be a sceptical watchdog accustomed to restraining the EPA’s regulatory enthusiasm.

For our present concern, it is even more interesting that these findings run counter to virtually everything that has been thought and said about the economic costs of environmental policy in the past. For example, an industry spokesman quoted in the same report maintained that the EPA typically underestimated the economic costs when proposing new regulations (Office of Management and Budget 2003, 169). Also commenting on the report, a former EPA administrator acknowledges that this is a widely held view which is, however, wrong in most instances (Reilly 2003). He illustrates this

31 Interview with IBEC executive, October 4, 2002.
point by reference to the Bush (senior) administration’s new Clean Air Act, a piece of legislation that promised far-reaching changes to require cleaner cars, power plants, factories, and fuels. According to Reilly,

[t]he proposal was accompanied by an extensive effort to calculate the costs of these ambitious new initiatives. EPA staffers and officials worked with the Office of Management and Budget (OMB) and the Council of Economic Advisers (CEA) to agree on the anticipated impact on the economy. Industry’s future costs to implement the new acid rain controls were among the most hotly disputed matters. The electric power industry estimated that eliminating one ton of sulphur dioxide (the bill aimed to eliminate 10 million tons) would cost more than $1,300. The EPA, CEA and OMB ultimately agreed on a cost estimate of $600 to $800 per ton. We got it wrong: Over the ensuing decade the cost proved to be less than $200 per ton (Reilly 2003).

According to Reilly, a review of some of the major regulatory initiatives overseen by the EPA since its creation in 1970 reveals a pattern of consistent, often substantial over-estimates of their economic costs. On issues like catalytic converters on cars, the phase-out of lead in petrol, and the costs of acid rain controls, overly cautious economic analysts at the EPA advocated proposals they considered important but projected high-end costs that undercut the acceptance of, and heightened the opposition to, their initiatives (Reilly 2003). Moreover, the OMB report makes clear that the real weakness in analysing the likely impact of new environmental rules lay in a highly conservative calculation of the expected benefits. Where the costs of four major EPA rules in the 1990s were $8 billion to $8.8 billion, the benefits are now calculated to have been between $101 billion and $119 billion (Office of Management and Budget 2003, 8).

Thus, evidence related to the economic impact of environmental policies is often ambiguous, and neither the regulator nor the regulated have all the data or the ability to interpret them. Economic impact estimates show a wide variance depending on the methods and models used and on the economic indicator selected. A common finding is that environmental policies increase inflation mildly and decrease productivity only very slightly. The same policies also tend to lead to slight net increases in employment (Tietenberg 1994). However, job losses clearly have occurred in specific industries,
communities, and regions as a result of environmental policies (Kraft 1996, 170). There may be fewer losses than initial estimates often suggest, but, as Kraft points out, this is of little comfort for those who lose their jobs or to the business forced to close their doors (Kraft 1996, 170). However, exaggerations seem to be the norm rather than the exception. At the national or macro level, environmental policies have only a very small impact on the economy, no matter what measure is used: inflation, productivity or jobs (Portney 1990). In the US, the Bureau of Labour Statistics found that during 1988, only 0.1 percent of all layoffs were attributable to environment-related causes. As Bezdek (1993) reminds us, that means that 99.9 percent of jobs lost in the United States during that time were the result of other factors, such as free trade, adoption of new technologies, and fundamental shifts in the economy. If, as a result, policymakers have reasons to be wary of the cost-predictions of self-interested firms, how do lobbyists bring their messages across?

4.2.3 Selling knowledge (truthful and untruthful) to suspicious policymakers

Access to the government is made easier by having the reputation of being a trustworthy supplier of good information. However, access is not perfectly conditional on informedness, reliability and truthfulness. It is therefore possible for businesses to make exaggerated or otherwise untrue claims about a policy’s negative inducement effects, and, if these messages achieve their desired effect of averting the policy, getting away with it. The incentives for business lobbyists to misrepresent the likelihood or size of negative inducement effects are reinforced by the fact that, just like other lobbyists, they tend to frame their preferences in such a way as to be congruent with the wider interest of society. Typically, the messages sent by business lobbyists to policymakers already contain the link between the policy’s effects on business, the general interests of society, and the policymakers’ electoral interests.

Of course, private interest representation is private interest representation; there is no denying that. However, we do frame our goals in such a way that they are congruent with the common good, and by and large they are, not least in the sense that a tunnel vision approach to interest representation would backfire.\textsuperscript{32}

\textsuperscript{32} Interview with DEHOGA executive, September 2, 2002.
As Mitchell observes, ‘just as the boundary between expertise and self-interest becomes uncertain, so does the line between the firm’s interest and the community interest’ (Mitchell 1997, 49). Because of business’ informational advantage there is always a possibility that policymakers are misled into believing that their policies would have considerable negative inducement effects even if the true costs of policy are much lower: ‘We can tell them pretty much anything – how would they know?’

Policymakers, for their part, are suspicious of the possibilities of exaggerations and misrepresentations by business lobbyists. In game-theoretic terms, lobbying around a particular policy can come from two different ‘types’ of businesses – those severely affected by the policy and those on whom the policy imposes only minor costs. Both share an interest, each for their own good reasons, in having the policy removed from the agenda and may therefore send identical messages to the policymaker. The problem for the policymaker is that she does not know which type of lobbyist she is dealing with. Policymakers do know, however, that lobbyists are self-interested. Simple self-serving assertions that do not directly affect payoffs would therefore be dismissed as ‘cheap talk’, i.e., as non-verifiable claims. Cheap talk acts have been shown to be able to affect the beliefs, and hence the actions, of their recipients under certain circumstances. Positive incentives for truthful revelation through cheap talk, however, are usually contingent on a very limited degree of divergence in the players’ preferences (Crawford and Sobel 1982) or on the presence of a second recipient (Farrell and Gibbons 1989). A typical scenario involving two recipients is one in which a firm wants to convince a policymaker of its perilous situation in order to avert a pending costly policy (say, environmental regulation) while simultaneously convincing its shareholders or a potential buyer of its value and thriving performance. In the context of a general analysis of business political power, I cannot assume these conditions as given.

Unsubstantiated speech acts, therefore, have little effect on the beliefs of the policymaker (Farrell and Gibbons 1989, 1215). Policymakers of all kinds may therefore dismiss self-serving assertions in the way Galbraith and his colleague at the US Office of Price Administration did in the quote at the beginning of this chapter. It is simply not sufficient for business to reiterate in one version or another the old mantra that ‘what’s

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33 Interview with IBEC executive, October 4, 2002.
good for the United States is good for General Motors, and *vice versa.*\(^{34}\) Thus, the lobbyist who has something to say that is of interest to himself and the policymaker has incentives to differentiate himself from the babbler that tries to mimic him. If words are not sufficient to convince the policymakers that the prediction of negative inducement effects is true, action is required to underscore the seriousness and credibility of the claim. Such differentiating, or *separating,* can be achieved by supplementing the lobby message with some costly action that the ‘other type’ of lobbyist would not be expected to find a sacrifice worth making.

To illustrate the logic of information transmission through costly political action, it is useful to draw on research of wage bargaining and industrial relations. Kennan and Wilson (1993) found that bargaining is substantially a process of communication necessitated by initial differences in information known to the parties separately. Delay or endurance tactics may be required to convey private information credibly. For instance, willingness to endure a strike might be the only convincing evidence that a firm is unable to pay a high wage. Likewise, the costly pursuit of a damage claim might signal that the plaintiff can muster sufficient evidence to convince a court of the magnitude of her injury. In Kennan and Wilson’s words,

> [c]redibility is the important ingredient of this hypothesis. The firm can always assert that a high wage would be ruinous, but it may be profitable for the union to verify this assertion by striking long enough: the firm would profit by capitulating early if it could afford a high wage (Kennan and Wilson 1993, 46).

Thus, in the context of bargaining games, delays and flexing of muscles constitute costly actions aimed at providing convincing evidence for the accompanying claim’s truthfulness. This applies analogously to the lobbying of policymakers by business interests.\(^{35}\) In the language of game theory, the situation in which one type of business,

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\(^{34}\) As famously stated by the former CEO of General Motors, Charles E. Wilson, during the 1953 Senate hearing that confirmed him as the US secretary of defence.

\(^{35}\) Bargaining is different from lobbying in one important aspect. In bargaining games, the cost imposed by a party rejecting an offer and thereby retaining the status quo always affects both parties’ payoffs.
but not the other, shares an interest with the policymaker, while both types of business have the same preference with respect to the policy outcome, is characterised by a partial conflict of interests. The interaction between business and the policymaker in this setting is a signalling game in which a business lobbyist 'reminds' the policymaker that she is structurally dependent on business as far as her electoral fortunes or the success of her policy are concerned. At the same time, the policymaker is aware that the relevance of this structural dependence varies according to a parameter that is unknown to her: whether or not the pending proposal leads to negative inducement effects. In the next section, I provide a game-theoretical analysis of business lobbying based on the logic that information about the real-world impact is asymmetrically available to business and that assertions made by business have to be backed up by some form of costly action if policymakers are to listen to them.

The choice of a game-theoretical framework is independent of the degree of competition or oligopolistic distortions of the market in which the businesses in question operate. In perfectly competitive settings, it is often appropriate to employ a decision-theoretical framework for analysing the choices made by firms. The reason behind this choice is normally that the implications of the decisions made by other actors confront the decisionmaking form in question anonymously, as 'market forces'. Thus, if the number of firms is large enough and competition sufficiently close to perfect, large-N games converge to N players' non-strategic decision problems. In the present context, however, the case for game theory is given even if competition among firms in the sector to be regulated or taxed was perfect. Sectorally defined interest groups, peak associations, and trade and industry organizations often lobby the government quasi-monopolistically on behalf of their member firms but rarely in a decentralized manner. Moreover, the government itself is a monopolistic actor confronting business.

The game itself is of a finite and non-cooperative nature. However, the long-term importance of both lobbyists' and politicians' reputation can be seen as part of a wider societal and political non-cooperative game of electoral competition, as well as of a cooperative game of collective action required for the provision of public goods such as a negatively (Kennan and Wilson 1993, 52). This dimension is usually absent in last-minute lobbying against a specific policy.
pollution-free environment. In repeat-play versions of this game, business will care about its reputation as an informative source of policy advice because it wants to retain the chance for an informational impact on future decisions (Morris 2001). Before I describe the game between business and policymaker, I will first describe the generic form of a signalling game.

4.3 Signalling models of lobbying

The informational analysis of business political power can proceed by treating lobbying as a two-player signalling game between a lobbyist and a policymaker. A signalling game captures a situation of asymmetric information between two players. One player has private information that is relevant for a decision made by the other player. The second player's decision influences both players' payoffs. Before the second player decides upon an action, the first player can send some sort of signal. This signal can be a verbal statement (e.g., 'if the government increases the fuel tax we will have to close down some operations and shed workers') or a meaningful action that reveals information indirectly (e.g., starting to fire workers after the government announced a hike in fuel tax). By sending appropriate signals the first player can influence the second player's beliefs and in this way influence that player's choice. The first player may have an incentive to reveal false information or to avoid revealing any information at all (Banks 1991, 2-6).

Looked at this way, lobbying is essentially strategic information transmission.

This type of game is well-suited for studying the informational role of interest groups and has often been applied in that context. Special interest groups are viewed as being better informed on issues that affect them than policymakers. They can thus play a role in the policy process by sharing (some of) their private information with the relevant policymakers. Policymakers have incentives to listen to special interest groups when they are imperfectly informed and special interest groups possess better information

The canonical form signalling game involves two players. However, in principle there is no restriction on the number of actors, and extensions involving three or more players have been analysed; cf. Grossman and Helpman 2001, 143-170.

about the policy area in question. For instance, the policymaker might be unsure about
the preferences of the electorate, or about the state of the world in which the policy
takes effect. Special interest groups are better informed because they have specific ex-
pertise in the area in which they are regulated. This is the information rationale for lob-
ying. Lobbying gives policymakers a chance to improve their decisions (Lohmann
1998).

However, an interest group’s preferences over outcomes are rarely identical to those of
the policymaker. As a result, privately informed interest groups have incentives to be-
have strategically when transmitting information to policymakers (Crawford and Sobel
1982, Austen-Smith 1993). Lobbyists are self-interested and policymakers cannot sim-
ply trust their speech acts. They have to extract the informative part of the received
messages, based on their *a priori* information – that is, on the hunches, experience and
other information they bring to the game before observing or listening to the words and
actions of the interest group. Special interest groups, on the other hand, know that poli-
cymakers discount their messages. They adjust their strategies accordingly to appear
trustworthy. Based on surveys by Banks (1991), Polk (2002), and Van Winden (1999), I
now outline the general setup of a signalling game.

There are two states of the world, $t_1$ with probability $\theta_1$, and $t_2$ with probability $\theta_2 = 1 -
\theta_1$, whose realization is not known to the policymaker, but is known to the special in-
terest group. There are also two actors, a lobbyist $B$ and a policymaker $P$. Technically, a
third player, ‘nature’, chooses between $t_1$ and $t_2$. In this way, problems of incomplete
information can be analysed as sequential games of imperfect information. The policy-
maker has prior beliefs about the probabilities with which each state of the world occurs
and implements one of two policy alternatives, $a_1$ and $a_2$. The payoff to the policymaker
is high (0) if she implements the ‘right’ policy in each state of the world and low (-$u$) if
she implements the wrong one. The policymaker prefers $a_1$ if the state is $t_2$, and $a_2$ if the
state is $t_1$. Thus, the task of the policymaker is to choose a correct policy under uncer-
tainty. The payoffs to the special interest group (0, $\alpha$, $\beta$) are arbitrary. Their specifica-
tion determines the kind of game that is played. I will outline some common games in
turn. The payoff matrix of the games is shown in Table 4.1. The matrix and the prior
probabilities are common knowledge, i.e., they are known to all players.
Table 4.1 Payoffs of a signalling game (lobbyist, policymaker)

<table>
<thead>
<tr>
<th></th>
<th>$t_1$</th>
<th>$t_2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>$a_1$</td>
<td>$-a,-u$</td>
<td>$-\beta,0$</td>
</tr>
<tr>
<td>$a_2$</td>
<td>$0,0$</td>
<td>$0,-u$</td>
</tr>
</tbody>
</table>

Suppose that $a > 0$, and $\beta = 0$. In this case, there is no conflict of interest between the policymaker and the special interest group. They share the same interest, which is to find the policy suitable for each state of the world. There may or may not be an incentive for the special interest group to send a message. This depends on the – as yet unspecified – lobbying costs and on the policymaker’s *a priori* beliefs. The important property of this parameter range is that the policymaker can *always* trust the signal she receives from the special interest group. Knowing that the lobbyist has no incentive to mislead her, the policymaker is perfectly informed by the time she chooses between $a_1$ and $a_2$. Without a signal, she knows that the special interest group has no incentive to send one, which indicates that the choice based on her *a priori* belief is the right one.

Suppose next that $a > 0 > \beta$. This parameter range represents a full conflict of interest between the special interest group and the policymaker. In his situation, the policymaker knows that she is better off mistrusting any signal she receives. Therefore, she will always ignore any signal. Facing such an unresponsive policymaker, a lobbyist knows that whatever he does will have no effect. Hence, he will never send a signal if doing so involves any costs, no matter how minimal. In this setup, with the interests of the two players fully opposed and any signal falling on deaf ears, there is no scope for information transmission.
The parameter range in which lobbying becomes a matter of interest is $\alpha > \beta > 0$. This is the situation of partial conflict between the special interest group and the politician. Whether or not the two players have the same interest depends on the state of the world. The lobbyist always prefers policy $a_2$ over $a_1$, regardless of the state of the world. If the state is $t_1$, the policymaker shares the lobbyist's interest. In this situation, the special interest group, who observes the state of the world and has perfect information, offers to guide the policymaker in her choice. He can inform the policymaker about the realized state by sending a signal. The policymaker, who observes only the signal but not the true state of the world, anticipates that sending a signal is only worthwhile for certain types of interest groups and updates her beliefs accordingly. In contrast to the case involving a full conflict of interest, the policymaker will not outrightly ignore any message because she knows that in some cases truth-telling is the preferred strategy of the lobbyist. Hence, she can learn something from the signal she receives.

If the state of the world is $t_1$, any lobbyist will be referred to as a type-1 lobbyist; if the state of the world is $t_2$, any lobbyist will be called type 2. Recall that unsubstantiated assertions – cheap talk – will not be deemed informative by the recipient if she believes that these assertions are self-serving at least some of the time. In this situation, a 'sorting condition' must be introduced which ensures that the type-2 lobbyist cannot always mimic type 1. If the sorting condition does not hold, the payoff to type 2 is always equal to or higher than the payoff to type 1. To achieve this, a type-2 interest group must only mimic the behaviour of type 1, which would always make sense for him to do if $\beta > 0$. Anticipating this, the policymaker will mistrust any signal, and information revelation will again not be possible. If, however, the sorting condition is satisfied, imitation is only sometimes possible. In order to make the sorting condition possible, an additional element – the costs of lobbying ($l$) – must be introduced to the payoff matrix which ultimately affects the type-1 lobbyist differently from type 2. With lobbying costs in place, the type-1 lobbyist has an incentive to send a signal that type 2 does not have. The policymaker knows the decision problem of the lobbyist and is able to make inferences about the state of the world from the observed signal. The expanded payoff matrix in Table 4.2 includes the costs of lobbying. To accommodate the additional information, the table is unfolded into two panels, one in which the special interest group sends a costly signal ($s_1$) and another in which he does not ($s_2$).
The solutions to this game rest on the concept of ‘sequential equilibrium’ (Kreps and Wilson 1982). This is a refinement of Nash equilibrium, characterised by strategies for each player and probabilistic beliefs about the state of the world at the time a player is called upon to act. A strategy is Nash equilibrium if each player’s strategy is an optimal response to the other players’ strategies (Nash 1951). For sequential games such as signalling games, we require the additional criterion of subgame perfection. A strategy is subgame perfect if, for every proper subgame, the strategy restricted to the subgame constitutes a Nash equilibrium for the subgame (Selten 1965).

Matters become slightly more complicated, as the signalling game is a sequential game involving imperfect information on the side of one player. For a strategy to be Nash equilibrium in a sequential game of imperfect information it must also meet the requirement of sequential rationality. Every decision must be part of an optimal strategy for the remainder of the game. This requirement ensures conformity with Savage’s (1972) axioms of choice under uncertainty: at every juncture, the player’s subsequent strategy must be optimal with respect to some assessment of the probabilities of all uncertain events, including any preceding but unobserved choices made by other players. This encompasses the formulation of games with incomplete information due to unobserved choices made by ‘nature’ between different states of the world (Harsanyi 1967) According to Kreps and Wilson (1982, 871), the strategy of each player starting from each information set must be optimal according to some assessment over the nodes in

### Table 4.2 Payoffs of a lobbying game (lobbyist, policymaker)

<table>
<thead>
<tr>
<th>s₁</th>
<th>t₁</th>
<th>t₂</th>
<th>s₂</th>
<th>t₁</th>
<th>t₂</th>
</tr>
</thead>
<tbody>
<tr>
<td>a₁</td>
<td>-α, l, -u</td>
<td>-β, l, 0</td>
<td>a₁</td>
<td>-α, -u</td>
<td>-β, 0</td>
</tr>
<tr>
<td>a₂</td>
<td>-l, 0</td>
<td>-l, -u</td>
<td>a₂</td>
<td>0, 0</td>
<td>0, -u</td>
</tr>
</tbody>
</table>
the information set and the strategies of everyone else (Kreps and Wilson 1982, 872). This requires that an equilibrium specify beliefs as well as strategies (ibid.). The point to be stressed is that an assessment, and not simply a strategy, will or will not be a sequential equilibrium (ibid.). The equilibrium strategies are chosen such that each player’s expected payoff is maximized, given the other players’ equilibrium strategies and their beliefs about the state of the world. Beliefs are derived from the a priori knowledge and updated after observing the other player’s actions according to Bayes’ rule (Kreps and Wilson 1982, 864). The tree of the generic form of this type of signaling game is shown in Figure 4.1.
For the game described in Table 4.2, the resulting equilibria depend on the signalling costs \( l \), and on the policymaker's a priori belief. If signalling costs are high \( (l > a) \), a unique pooling equilibrium exists in which the special interest group never lobbies, and
the policymaker makes a decision based on her a priori beliefs. By contrast, if lobbying costs are intermediate ($\alpha > l > \beta$), two types of equilibria exist, which are sensitive to the a priori belief of the policymaker. A type-2 lobbyist will never send a signal, since this would result in a negative payoff even if the policymaker is persuaded to enact $a_2$. The focus is therefore on type 1 and his incentive to send a signal, which in turn depends on the policymaker's prior beliefs concerning $\theta_1$. If the policymaker is inclined to choose the 'wrong' policy based on her a priori beliefs, the unique equilibrium is separating, and the type-1 interest group always lobbies. In the language of signalling games, we say that a type-1 lobbyist 'separates' if his chosen strategy enables the policymaker to distinguish $t_1$ from all other types of lobbyist. Similarly, we speak of 'pooling' if all types of lobbyist chose the same strategy (cf. Banks 1991, 7).

Anticipating this, the policymaker trusts the signal and chooses policy $a_2$ after receiving a message and $a_1$ otherwise. A type-1 lobbyist has no incentive to deviate, because not sending a signal induces the unfavourable policy and $-\alpha$ payoff. However, if the policymaker's prior beliefs induce her to enact policy $a_2$ without signalling, two equilibria exist. The first is a pooling equilibrium in which no signal is sent. In this situation the policymaker chooses the policy based on her prior beliefs, which is the appropriate one. However, there is also a separating equilibrium: If the policymaker assumes that the type-1 lobbyist always indicates $t_1$ when it occurs, she only selects policy $a_2$ if $t_1$ is affirmed by the lobbyist. In this case, signalling is optimal only for the type-1 interest group.

Finally, if signalling costs are low ($\beta > l$), type-2 lobbyists have incentives to mislead the policymaker. But they take into account that the policymaker knows their incentive to do so. Lobbyists, therefore, need to provide an incentive for the policymaker to listen to the signal. This incentive is not given if the type-2 always signals, because the policymaker would anticipate this strategy and ignore any signal. Thus, for the type-2 lobbying is only a good strategy if it still allows the policymaker to extract some information from the signal. This is the case if the probability of a signal being sent by the type 1 is higher than the respective probability for type 2. This condition, in turn, will hold under the following circumstances. If the policymaker's prior belief about the state of the world leads her to enact $a_1$ in $t_2$, the type-2 lobbyist has an incentive to always send a signal. Otherwise, type 1 could mimic type 2. A unique semi-separating equilibrium
exists in which type 2 always sends a signal, and type 1 plays a mixed strategy and mimics type 2 every now and then. In this case, the policymaker is able to extract some limited information from an observed signal. After having observed a signal, it is not optimal for the policymaker to choose $a_2$ in any case, because doing so would give the type-1 lobbyist an incentive to send a signal in any case. Hence, in equilibrium, the policymaker will sometimes choose $a_2$ if a signal is received, and always choose $a_1$ if no signal is forthcoming. Accordingly, the type-1 lobbyist will send a signal every now and then.

Next, consider the case where the policymaker chooses $a_2$ in $t_2$ if she has to make a choice based on her a priori beliefs. In this case, no separating equilibrium exists, since this would require that the type-2 lobbyist always sends a message, whereas type 1 never does. But as argued above, this is not a good strategy for type 1 if signalling costs are sufficiently low. Thus, with $\beta > l$, there are only pooling and semi-separating equilibria. However, two different pooling equilibria exist. In the first one, neither type of lobbyist has an incentive to send a costly signal, and the policymaker chooses the best policy based on her a priori beliefs. In the present case, this means that neither type of lobbyist sends a signal and the policymaker always chooses $a_1$. In the second pooling equilibrium, both types always lobby and the policymaker chooses $a_1$ after observing the signal. Not sending a signal cannot be optimal for either lobbyist, because this would induce $a_2$, which yields a strictly lower payoff for any type of lobbyist. Finally, in the semi-separating equilibrium, the type-1 interest group never sends a message and type 2 lobbies every now and then. The policymaker anticipates these signalling strategies. She knows that a signal is a sure indicator of the lobbyist being of type 2, but that the state of the world is not necessarily $t_1$ if no signal is sent. Accordingly, she chooses $a_2$ if she observes a signal and randomises between $a_1$ and $a_2$ if she does not observe one, because she knows that the type-2 lobbyist sometimes remains silent.

In these situations where multiple equilibria exist, a slight change in any variable can lead to a jump from one equilibrium to another. General comparative static results are therefore difficult to obtain. We can generally say, however, that the likelihood of lobbying increases in the payoffs to the lobbyist and decreases in the signalling costs. This result seems plausible at first glance and is valid in most cases (Polk 2002, 22). The reason is that the lobbyist has to weigh the expected benefits against the costs of lobbying.
However, these generalisations can break down under certain circumstances, as the lobbyist must take into account the policymaker’s reaction in the assessment of his lobbying strategies. If, for example, the benefit from lobbying increases in state $t_2$, the policymaker anticipates the interest group’s higher incentive to lobby. This, in turn, makes her less willing to react to lobbying, which again decreases the incentives for dishonest lobbying. The general likelihood of lobbying depends on the magnitude of these effects, but tends to increase in payoffs (Polk 2002, 22).

4.4 A signalling model of business lobbying

4.4.1 Reputation costs

In the generic lobbying game outlined above, the policymaker knows the decision problem of the lobbyist, and is therefore able to infer the best content from any observed message. This means also that only the decision to send a signal or not is important, but not the contents of that signal. All that matters for lobbying to acquire informativeness, therefore, are the signalling costs, but not the contents of the signal itself (Polk 2002, 18). In the standard signalling models of lobbying, this implies that the costs of lobbying are the same irrespective of whether the message is truthful or not. Likewise, whether a special interest group is lobbying a long-time ally or an adversarial policymaker, the policymaker is never fully certain of the salience of the lobbyist’s cause (Ainsworth 1993, 41). There are reasons to suspect, however, that in the real world of politics whether the lobbyist is the former or the latter matters a great deal for the lobbyist’s payoffs and therefore for the way the policymaker interprets the message. I argue that there are countervailing constraints on the making of exaggerated claims in addition to the material costs of lobbying. Furthermore, such constraints pertain independently from the possibility, resulting from the complex second guessing implied in the exercise of sequential rationality, that the sending of a signal is interpreted by the policymaker as evidence that the signal is untrue.

Pluralists have long assumed that there are costs in taking political action other than those related to personal time and effort involved in political mobilisation, to becoming informed, or to the actual ‘physical’ activities of lobbying and campaigning. These other costs refer to the possibility of losing and of making political enemies (Polsby 1960). Students of collective bargaining have come to appreciate an actor’s reputation
as an asset in special interest group politics. According to Kennan and Wilson (1993, 46), reputational payoffs provide 'strong motives for steady adherence to forthright revelation of private information, based on building and maintaining a valuable reputation for honesty over many repeated bargaining relationships.' For these authors, it is reputational effects that explain the reliability of intermediate agents, such as brokers and attorneys, whose longer-term interests are served by adherence to professional standards of conduct. Similarly, a firm and a union that repeatedly negotiate short-term contracts may have incentives to be forthright in their negotiations (Kennan and Wilson 1993, 46). Special interest groups in general have strong incentives to maintain their reputation in the eyes of policymakers. Business groups in particular have a strong, long-term interest in maintaining their reputation as suppliers of good information (Berry, 1989, pp. 143-146). As a German lobbyist emphasised:

If we did some scaremongering with figures that could in retrospect be dismantled by other research institutes, we would manoeuvre ourselves off the pitch because nobody would believe us anymore. Where I work, I don't think this bargaining scenario of 'ask for 100, take home 50' really applies. 38

Thus, I assume that when devising a lobbying strategy, business will be careful to avoid situations in which wildly exaggerated predictions can be exposed as such. In line with the traditional formal treatment of interest group lobbying, I assume that business lobbyists attempt to bestow credibility onto their messages by underlining their resolve with costly campaigning. 39 My model deviates from previous signalling models, how-

38 Interview with the public affairs executive of the German Hotels and Restaurants Association (Deutscher Hotel- und Gaststättenverband, DEHOGA), Berlin, September 2, 2002.

39 Note that it is the lobbying effort itself that is costly here, but not the gathering of information, as has been assumed in other studies. While previous studies of interest group influence on public policy have modelled information acquisition as being costly for the lobbyist (e.g. Austen-Smith 1993), I assume that being informed is costless for business. Firms of course have to pay for at least some of the policy-relevant information they want to acquire. However, the rationale for the assumption of zero information-acquisition costs for firms in my model is that many of the relevant expenses will have already been made by the time the firm decides whether or not to lobby against a particular legislation. Evidence from environmental policy studies suggests that information-acquisition costs of firms vary
ever, by considering the *reputational* costs of ‘lying’ as well as the *material* costs of lobbying. In the following section, I formulate a signalling model that incorporates the reputational costs of lobbying in the payoff structure while integrating political lobbying with the implications of business’ structurally privileged position in the political-economic system.

...widely according to firm size and across different policy domains due to economies of scale, political and market uncertainty, and uncertainty over scientific risk (see OECD 2001, 12-26).
In the model, there are two actors – a business lobbyist \( B \) and a policymaker \( P \), and a pending policy proposal that may induce significant negative effects for the economy or the success of the policy. Because policymakers sometimes have incentives to cater for non-business interests, the proposal has found its way on the political agenda despite the fact that it is disliked by all types of affected businesses.\(^4^0\) The game then proceeds as follows. Nature chooses whether a pending policy will induce negative effects \((t_1)\) with probability \(\theta_1\), or not \((t_2)\) with probability \(\theta_2 = 1 - \theta_1\), and reveals its move to the business lobbyist, but not the policymaker. The business lobbyist is, from then on, privately informed about the state of the world. He can chose to send a costly message (signal \(s_1\)) to the policymaker to inform her decision, or refrain from doing so (signal \(s_2\)). The policymaker can take one of two actions – pass the policy in question \((a_1)\), or retain the status quo \((a_2)\). The resulting payoffs for the policymaker and for business depend on which of the two states of the world is realized. In \(t_1\) the policy has severe negative effects of size \(a\) on business. Also in \(t_1\) the policy has negative inducement effects, either because it negatively affects the country’s macroeconomic performance and thereby the policymaker’s chances to achieve their various other policy goals or gain another term in office at the next election, or by leading to other undesired effects of the policy. The negative inducement effects for the policymaker are represented by \(u\), which can be in-

\(^{40}\) For accounts of just how issues enter the political agenda see Downs (1972) and Carmines and Stimson (1993). There will, of course, often be instances in which at least some firms or sectors favour a certain policy that is deemed undesirable by others. This may be because the policy bestows on them an advantage \(\text{vis-à-vis}\) competitors, or because it benefits their entire sector as compared to others. In the context of environmental politics, for example, manufacturers of environmental technology will typically have a vested interest in increased regulation (cf. Wilson 1990, 34). Likewise, from the viewpoint of potential market entrants, many policies that lead to increased costs for established players will be deemed desirable by virtue of harming the incumbents. This is the reason why lobbying would still occur even if the structural dependence of the state on capital was complete. It is important to keep in mind, however, that the presence of countervailing business preferences regarding policy does not produce an overall relaxation of the constraints on public policymaking, nor does it render the system of market capitalism more democratic. Today’s challengers and market entrants are tomorrow’s incumbents. They will then enjoy the same structural advantages that they now help to undermine. Unlike elite theories, therefore, structural accounts of business political power do not rely on business unity. For the ease of exposition, in the present analysis I make the simplifying assumption that the policy in question has either no or only negative effects on business and affects all firms equally.
terpreted as the extent to which she will suffer electoral and/or fiscal punishment for enacting a policy with undesirable side effects.

Regardless of the state of the world, if the policymaker chooses $a_2$ she incurs a decline in credibility and reputation and will be punished at the next election for defaulting on her policy pledges and selling out to particularistic organised interests. Recall from the above discussion that this is why policymakers have incentives to keep election promises and honour pledges. I denote these pledge costs by $p$. This parameter affects the policymaker's payoffs differently than what we have learned from the standard signalling models outlined above. In the classic models, $u$ occupies the diagonal cells of the payoff matrix, thereby denoting the cost incurred by the policymaker for picking the 'wrong' policy in a symmetrical decision dilemma. The decision problem for the policymaker comes down to picking the right policy given the state of the world, i.e., choosing $a_1$ if the state of the world is $t_2$, and $a_2$ if it is $t_1$. In the context of the signalling game between business and policymakers specified here, this asymmetry no longer holds. Instead, the policymaker only incurs $u$ if she enacts $a_1$ in $t_1$, but she incurs $p$ every time she chooses $a_2$.

Business incurs minor policy costs of size $\beta$ in situation $t_2$, but is relieved of all costs net of any material lobbying costs $l$ if the policymaker complies with its lobbying demands $a_2$. However, if it turns out that business duplicitously sent $s_1$ ($s_2$), it will incur an exogenous penalty for lying $k$, which can be interpreted as being denied access to the policymaker for future representations. I assume that misinformation can only be detected once the policymaker has passed the policy. I also ignore here instances in which business fails to warn the policymaker about the realization of $t_1$.

Finally, while the policymaker can, to some extent, infer the credibility of the claims from the observed levels of costly political action business is willing to employ in the lobbying process, there are limits to playing the tough guy and enticing business into showing its teeth. Research on the economic effects of regulation has shown that expectations about regulatory regime change may be just as important for the investment behaviour of firms as the actual regulatory change itself (Binder 1985, Granato 1996, Rose 1985). Recall also from the discussion of the theory of the structural dependence of the state on capital that it is not so much the actual policy that induces disinvestment
and, by implication, other negative inducement effects (Przeworski and Wallerstein 1988, 22-24). Rather, it is the anticipation of disliked policy in a dynamic setting that undermines business’ willingness to invest and thereby may harm the policymaker. Open disputes over contested legislation can have negative effects on investment behaviour, conferring on the policymaker a ‘confidence cost’ $v$ whenever business decides to lobby. The payoffs of the game are summarised in Table 4.3.

Table 4.3 Payoffs of the lobbying game with reputation costs and confidence costs (business lobbyist, policymaker)

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<td>$t_1$</td>
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<td>$-\beta-l-k,-v$</td>
<td>$-a-k,-u$</td>
<td>$-\beta$</td>
<td>$0$</td>
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<td>$t_2$</td>
<td>$l,-v-p$</td>
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To investigate the interaction between the policymaker and the business lobbyist, the game is analysed using the concept of sequential equilibrium. The conditions of sequential equilibrium require that for any type $t$ of business its strategies must be optimal given the strategy of the policymaker. Furthermore, the policymaker’s strategy must maximize her expected payoff given her posterior beliefs about the type of business. Finally, the policymaker’s posterior beliefs must satisfy Bayes’ rule whenever possible. In the following paragraphs, I describe sample equilibria for the two most interesting scenarios. In the first scenario, the reputation costs of business are large compared to the material costs of lobbying, and the negative inducement costs for the policymaker are small compared to her pledge costs. In the second scenario, the costs of negative in-
ducement effects are larger than the pledge costs, while the material costs of lobbying are considerable compared to business' reputation costs.41

There is a separating sequential equilibrium if \( p > u \) and \( l < k \). In a separating equilibrium the two possible types of lobbyists send different messages and the policymaker, having observed the signal, can infer the state of nature with certainty. Consequently, her updated belief coincides with the true type of business. The policymaker expects relatively high pledge costs from retaining the status quo and consequently always passes the policy whatever the signal is. The lobbyist still separates, because the costs for lying exceed the material lobbying costs he is willing to pay. Thus, if pledge costs are high, the separating behaviour on the side of the lobbyist can be in equilibrium even if the costs for lobbying are low. The game tree in Figure 4.2 illustrates this equilibrium; the equilibrium paths are highlighted in bold print.

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41 Computations of all equilibria of this game complete with formal proofs can be found in Bernhagen and Bräuninger (2005). Bernhagen and Bräuninger use a slightly different equilibrium concept - perfect Bayesian equilibrium. In the game presented here, with two possible types of a business lobbyist and each actor acting only once, the sets of perfect Bayesian equilibria and sequential equilibria (Kreps and Wilson 1982) coincide (Fudenberg and Tirole 1991).
Figure 4.2 A separating sequential equilibrium of business lobbying

Next, there is a pooling sequential equilibrium if \( l < \beta \) and \( p < u \). In this scenario, the lobbyist always claims to be severely affected. In a pooling equilibrium, both types of
lobbyist send the same message $s_1$ claiming negative inducement effects of the pending policy. In this situation, the policymaker cannot learn anything from the message and her beliefs do not change after receiving the signal. This equilibrium is illustrated in the game tree in Figure 4.3. This only happens if both cost ratios are small, i.e. when there is little incentive to misrepresent on the side of the lobbyist and no incentive not to withdraw the proposal on the side of the policymaker.

**Figure 4.3 A pooling sequential equilibrium of business lobbying**
4.5 Conclusions

The game-theoretic analysis in this chapter has shown that the behaviour of the lobbyist and the policymaker’s response both depend on the ratio of business’ material lobbying cost in relation to the costs of being caught lying, and on the size of the policymaker’s pledge costs to her costs from negative inducement effects. As a result, in some circumstances business can achieve its political goals by virtue of its privileged information about the consequences of policy. All this suggests that the political power of business owes much of its clout to business’ informational advantage vis-à-vis policymakers with respect to the negative inducement effects of policy. ‘Knowledge’, as Hobbes pointed out over 350 years ago, is one of ‘severall sorts of Power’ (Hobbes 1996 [1651], 53). Therefore, the degree to which policymakers depend on business for the supply of information, impact assessments, and predictions should be a key variable in the study of business political power.

But, is the ability of achieving ones goals by instilling false beliefs in political decisionmakers really a form of power? Indeed, it could be argued that the analysis of business lobbying as a signalling game is about gullibility rather than political power. There are two replies to this objection. Firstly, it is important to keep in mind that it is ultimately the lobbying businesses who decide whether or not the alleged negative inducement effects become reality. Business informational privileged position stems from the same source as its structurally privileged position in Lindblom’s sense – the control over allocation and investment. The same institution of private property that endows business with privileged access to information about the costs of policy is also what, in principle, puts business in the position to cause the respective predictions to materialize. What we are dealing with are predictions made by one party about its own future behaviour. A capitalist firm, by definition, makes its own business decisions. And just like with any actor, what a firm intends to do is, logically, private information: Others can only guess what an actor’s real intent is.

Of course, no firm would forgo future profits solely in order to ‘punish’ the policymaker for implementing an undesired policy. In the case of truthful lobbying in the presence of negative inducement effects – the classic case of structural state dependence – businesses would indeed have little choice but to cease activity, close down plants etc., were
it not for the fact that a timely signal and persuasive lobbying convinces the policymaker to change her mind. In this case, business gets what it wants because its rational responses to unwanted policy – disinvestment – would lead to outcomes that are also harmful to the policymaker. We could follow Sloof and Van Winden (2000, 86) here and call this an instance of ‘structural coercion’. These authors define ‘structural coercion’ in opposition to ‘pressure’ when talking about the enforcement of a threat by the strong type of groups, for whom this enforcement is in itself profitable action.

Secondly, the power wielded through the private information held by business about crucial parameters for policymaking is also power in the sense of Dahl’s action-based concept of power. According to Dahl, ‘A has power over B to the extent that he can get B to do something that he would not otherwise do’ (Dahl 1957, 202-3). The informational privileges of business in capitalist democracies enable businesses to do just that: to get policymakers to enact policy that they would otherwise not enact. Yet, unlike in Dahl’s account, businesses in the informational perspective of political power do not exert power by directly coercing policymakers. Rather, they achieve their means by virtue of instilling beliefs about the world – but not preferences, as in Lukes – in political decisionmakers.

In the following chapter, I predict outcomes of two real-world lobbying games by reference to the values of the variables that determine the two lobbying equilibria outlined above: the relative size of the reputation constraints \((k)\) of business in relation to its costs of lobbying \((l)\), and the ratio of the policymaker’s reputation costs from pre-election policy commitments \((p)\) to the electoral costs from adverse policy effects \((u)\).
5 Two Real-world Signalling Games

5.1 Introduction

In this chapter I evaluate the model of business informational power in the context of qualitative data from case studies of business lobbying on environmental and financial services regulation in Britain and Germany. Empirical studies of signalling games have to confront the problem that the information known privately by some players is also inaccessible to the researcher. In this situation, micro-level case studies can serve as useful quasi-experiments in which the central deductive claims of signalling models are put to a test (cf. Kennan and Wilson 1993, 54; Morton 1999, 133-135). For this purpose, I have collected richly described empirical information from newspaper and other media reports on the development of the respective policy and lobbying processes, official documents including parliamentary speeches, press releases, and expert reports done by political, financial and technical consultants and engineering analysts. Furthermore, I directly contacted over eighty policymakers, civil servants, parliamentarians, lobbyists, experts and academics who have been involved in one form or another in either of the two cases. The communications included three lengthy telephone interviews with lobbyists that were involved in the actual episodes at the time, as well as testimony by email from policymakers and lobbyists: five in relation to the British case, and eight for the German case.

The cases were selected on the values of the key explanatory variables such that the crucial parameter constellations of the two lobbying equilibria identified in Chapter 4 are represented. Other selection criteria that are commonly employed in small-N comparative research on interest group politics, such as country-specific characteristics (Grant, Paterson and Whitston 1988) or those relating to different types of policy (Lowi 1964) have no bearing on the analysis, in which countries and sectors are not of analytical interest in their own right. Since case selection in small-N research in the social sciences is still often guided by a desire to emulate Mill’s method of difference or Przeworski and Teune’s (1982) ‘most similar systems design’, a few words are necessary to justify why in the present context these considerations play no role for the selection of cases for analysis.
5.2 A note on case selection

Comparative studies using a 'most similar systems design' (Przeworski and Teune 1970) seek to compare cases whose system properties are similar with respect to as many features as possible in an effort to control for theoretically irrelevant differences, thereby isolating those differences that are relevant. In this way, the method seeks to identify those variables that are different among otherwise similar cases that account for the observation on the dependent variable. In comparative studies of interest group politics, a plethora of institutional and structural variables are assumed to be summarised in countries and policy areas. These variables are assumed to be 'hidden' in a black box of policy- and country-specific categories in standard comparative studies on business and politics. Therefore, scholars conducting small-N comparisons of interest group lobbying of policymakers usually draw their cases from either the same policy area, the same type of policy (distributive, redistributive, or regulatory), or the same country, or indeed all three of these, in an effort to hold many systemic variables constant.

For the two case studies in this chapter, the variables that are assumed to be captured by country or policy area in traditional studies of interest group politics are of substantive theoretical importance and will therefore be measured directly. For example, the reputation costs associated with the detection of untruthful lobbying \( (k) \) will generally be higher in countries where 'insider' representation or corporatist patterns of interest intermediation are key characteristics of public policymaking. The size of negative inducement effects \( (u) \) can be expected to vary with the policy area concerned. Finally, the probability \( \theta_l \) of negative inducement effects \( (t_l) \) can be interpreted as capturing firm or sector-level performance, the vulnerabilities of particular industries, or the more general economic situation.

The two policy areas from which the cases are drawn, environmental politics and financial services regulation, highlight the conceptual limitations of Lowi's (1964) famous typology of policies. Both cases involve explicitly regulatory policies, as they impose rules for behaviour and are specific and individual in their direct impact, but cannot be completely disaggregated to the individual or firm level. Yet, the case of banking regulation constitutes simultaneously an instance of redistributive policy, where losers and
winners are clearly distinguishable. The second case, from the world of environmental politics, shares all the characteristics of a regulatory policy in intent, yet it also has a clear and simultaneous *distributive* impact that is individual and highly disaggregated in character.

In the context of environmental politics, policymakers often make conscious choices between redistributive and non-redistributive means of regulation. Consider the following example from Kraft's textbook on environmental politics. Given that motorists drive too much and waste fuel, thereby causing urban congestion and pollution as well as contributing to undesirable increases of carbon dioxide in the atmosphere, two mechanisms are on offer by which such behaviour could be discouraged. Various regulatory schemes summarised under the — highly ideologically charged — term 'command-and-control' regulation include the setting of high fuel standards for automobiles or restricting the use of private vehicles through mandatory car-pooling and other means. An alternative, so-called 'incentives-based' policy, works by redistributive means involving increasingly fashionable 'economic incentives' instruments. These 'market alternatives' to 'command and control' typically involve raising petrol taxes sufficiently to achieve the same goals (Kraft 1996, 173).

However, it is only at a superficial level that one of these 'regulatory styles' appears distribution-neutral, while the other is redistributive. In both cases, undesired behaviour — driving too much and wasting fuel — is made less feasible by *authoritative* means. The difference is that in the one case the opportunities to drive fuel-inefficient vehicles become fewer by means of a diminution of the availability of fuel-inefficient vehicles, while in the case of tax hike the price that has to be paid for continuing to drive fuel-inefficient vehicles increases. In both cases, furthermore, people are affected differentially depending on their financial and socio-economic position, thus adding a redistributive dimension to 'command-and-control' regulation. Here, the main effective difference is that rich people will find it more difficult to buy their way out of the restrictions involved in the setting of high fuel standards, while they — but not the poor — can afford to continue engaging in wasteful behaviour if the goal is to be achieved by fuel tax increases. Moreover, as the environmental justice movement has made clear, the environmental problems themselves are not neutral with respect to distributive dimensions either. The burden of environmental pollution falls inequitably on the population, with
the poor and otherwise disadvantaged groups affected more than others. Beck was simply wrong when he asserted a fundamental distinction between socio-economic and environmental issues, according to which 'poverty is hierarchic', while 'smog is democratic' (Beck, 1992: 36). Like most regulatory areas, environmental policy has tangible distributive and redistributive implications. In the case of financial services regulation, where the regulated behaviour routinely involves the handling of financial assets and the distribution of returns, the redistributive implications of policy do not require further explanation. I will now go on to explore how business' informational privilege affects the behaviour of lobbyists and policymakers and the political outcomes of two real-world policymaking episodes.

5.3 Regulation of small business banking in England and Wales

In 1998, the British chancellor of the exchequer, Gordon Brown, asked Don Cruickshank to conduct an independent review of competition in banking services in the UK. Cruickshank, a former Director at the Office of Telecommunications, found that a 'complex monopoly' and pricing collusion existed among the four largest British high street banks, Barclays Bank plc, HSBC Bank plc, Lloyds TSB Bank plc, and National Westminster Bank, enabling them to secure almost 90 percent of the market in small business banking and to realize 'excess profits' of £525m a year between them (Cruickshank 2000). Following the report's publication on March 20, 2000, Brown announced 'behavioural remedies' to address these high levels of market concentration in retail services to small and medium-sized enterprises (SMEs) (HM Treasury 2000).

The findings were deemed sufficiently serious by the chancellor and by the secretary of state for trade and industry to make a joint reference of the matter to the Competition Commission which, after a two-year in-depth investigation, agreed with the Cruickshank findings on most aspects. In its report, the commission stated that collusive and anti-competitive practices of the four banks in England and Wales were against the public interest (Competition Commission 2002). Based on these reports, and in close

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42 No such excessive pricing was found in Scotland or Northern Ireland. The Competition Commission upwardly adjusted the Cruickshank findings slightly, estimating the four banks' control of the small
collaboration with the secretary of state for trade and industry, Brown set out regulatory measures designed to encourage competition and curtail the banks excess profits. At the core of these was the requirement that

the four largest clearing groups [...] pay interest on current accounts in England and Wales at Bank of England base rate less 2.5 per cent [...], alternatively to offer SMEs accounts that are free of money transmission charges, as applies in the personal sector; or to offer SMEs a choice between the two options (Competition Commission 2002, 5).

As a result of these remedies, the banks would sacrifice an annual slice of their profits of over £100m each. Not surprisingly, the banks responded negatively to these policy ideas. They argued that the measures would harm rather than help SMEs by reversing their impact in two ways. Firstly, according to the head of policy of the British Bankers' Association (BBA), the measures could undermine the potential competitors' attempts to break into the market, since part of their unique selling point was paying interest on small business current accounts. 'If the other banks are forced to do that, they lose that selling point.' Secondly, the banks suggested that price controls might result in the banks raising the price of loans in an attempt to recoup losses by increasing charges elsewhere, or even by refusing to lend to SMEs altogether.

5.3.1 Pledge costs

The issue of small business banking enjoyed a considerable amount of publicity. All major British newspapers covered the developments extensively. The angle and tone taken by the media was not very favourable toward the banks, indicating that public opinion was unsympathetic to the banks' current pricing policies. From the publication of the Cruickshank report onward, the government committed itself explicitly to address the problems identified therein (HM Treasury 2004, 68-9). In his 2000 Budget speech, Brown announced 'major reforms [...] to open up competition in banking' (HM Treasury 2004, 68-9). In his 2000 Budget speech, Brown announced 'major reforms [...] to open up competition in banking' (HM Treasury 2004, 68-9).

business banking market at 86 percent and their combined annual excess profits at £725m (Competition Commission 2002).

44 'Big banks may counter UK government reforms', Financial Times, 21 March, 2002.
ury 2000). On occasion of the publication of the Competition Commission’s report on March 14, 2002, Brown stated in a press release that his ‘goal is to create a fully competitive environment where new entrants can compete with existing banks on a fair basis and can offer more competitive banking services for small businesses’ (Department of Trade and Industry, 2002). On the same day, the secretary of state for trade and industry, Patricia Hewitt, released a press statement that further committed the government to taking action on the issue of small business banking:

We cannot allow small businesses to continue paying a higher price for banking services than is right. SMEs are a vital part of our economy, employing over half the workforce. [...] The recommendations of the Competition Commission, which the Government has accepted in full, will bring competition into the market and fundamentally change the way it works. [...] SMEs should find it easier to switch banks, charges should be lower and more transparent and SMEs should have greater choice both within and between banks (Department of Trade and Industry, 2002).

According to a senior manager at HSBC who worked on the bank’s strategy concerning the regulation, the entire process of investigating banking practices in the SME retail market was a ‘political game’ designed to be a ‘vote winner’. By the same logic, this bank manager hypothesised, the Treasury had a strong interest in keeping the drive for regulation up, as any retreat from its current stance would be seen as a ‘put-down’ and an ‘embarrassment’ in front of the public. By contrast, making good on the promise to improve the fate of millions of small and micro-businesses across Britain would earn Brown and the Labour government immense credit among the electorate. Apart from the positive image conferred with the posture of ‘standing up to the big banks’, the proprietors and employees of SMEs themselves constitute a large constituency. Of Britain’s 3.5m SMEs, 90 percent have an annual turnover of less than £1m and usually employ less than a handful of staff. Archetypal examples referred to in the NFO’s 2002 Small Business Banking Survey include small property agents, family-run restaurants, freelance consultants, and bicycle shops (quoted in Bank of Ireland et al. 2002, 94-97).

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Thus, the Labour government could expect considerable reputation costs if they dropped the policy.

5.3.2 Negative inducement effects

After hearings in May and June 2002, the Treasury Select Committee echoed the banks’ view that the policy ‘could damage rather than improve SME financing, and could well deter entry of the smaller banks into SME lending’ (House of Commons 2002, 22). However, the Competition Commission did its own calculations based on primary data about the banks’ capital base, their allocation of capital to services to SMEs in relation to their operating profits, and the cost of equity. It found that the returns generated by the banks’ SME business were at least seven percentage points above the average cost of equity of fifteen percent (Competition Commission 2002, 4). These findings decisively contradicted the banks’ claims of negative inducement effects. According to the Commission’s report,

‘The remedy [...] in no way adversely affects the terms on which banks lend to their customers. Hence, we see no justification for the clearing banks, in response, to increase money transmission charges or interest rates on loans, or reduce lending to SMEs as some clearing banks said they would do. We recognize the risk that the clearing banks will seek to negate the effect of paying interest on SME current accounts by increasing money transmission charges, but we are conscious that regulating money transmission charges – the obvious response to this risk – would represent a substantial burden (Competition Commission 2002, 6).

Thus, facing considerable pledge costs combined with rather small expected policy costs, the government had sufficient grounds to call the bluff and show itself determined not to buy the banks’ predictions of negative inducement effects. Any possible negative implications of the policy will not be dramatic. Moreover, the government could expect low costs from adverse policy effects, should they arise at all, because any such effects could be blamed on the banks, who in the public eye had been cast in an unfavourable light all along. Therefore, negative inducement effects were small, while pledge costs may have been considerable.
5.3.3 Material lobbying costs

How much effort and money did the banks spend on fighting the policy? In June 2002, at the height of the controversy, the policy chairman at the Federation of Small Businesses (FSB) claimed, ‘[t]he big four banks have huge resources at their disposal and we are disappointed that the resources have been directed towards opposing the findings of the Competition Commission Report, rather than carrying out its recommendations.’\textsuperscript{47} The FSB feared that the banks’ combined lobbying power may bring ‘the whole process off the rails.’\textsuperscript{48} Retrospectively, however, it appears that this potential power was not mobilised at the time. A senior manager at HSBC, for example, estimated that the actual lobbying costs expended by HSBC amounted to less than £20,000 during the 18-months period of the Competition Commission’s investigation. This sum breaks down primarily into management time and work afforded for preparing media representations and press interviews.\textsuperscript{49} He characterized the banks’ lobbying effort as ‘overall muted’ and a ‘mere sideshow’ and expressed the view that the Competition Commission would have been rather unresponsive to any lobbying, given the ‘highly academic’, ‘legal’, and ‘technical nature’ of its investigation. In the manager’s view, the Competition Commission ‘immunised itself against lobbying’ by circumscribing its investigation with a high level of confidentiality which it enjoyed due to its ‘significant legal powers.’\textsuperscript{50} According to the HSBC manager, the bank concluded at an early stage that any further lobbying would ultimately not be worth their while: ‘Did we really think we would influence the outcome? Not really.’\textsuperscript{51} None of the other banks went any further.

5.3.4 Reputation costs

According to the traditional wisdom in the literature on financial service regulation in Britain, an unwritten contract exists between successive governments and the banks, designed to maintain public confidence in the banking system (Grant 1993, 69-70; Le Fanu 2004). This relationship of trust has shaped communication and government-in-

\textsuperscript{48} Ibid.
\textsuperscript{49} Interview with HSBC manager, April 27, 2004.
\textsuperscript{50} Ibid.
\textsuperscript{51} Ibid.
dustry interaction within the ‘City-Treasury-Bank nexus’ (Grant 1993, 69) since the incorporation of the Exchequer into the department of economic affairs under Stafford Cripps in 1947. While it may have been somewhat weakened by the Cruickshank report, this relationship would not easily be sacrificed even for the short-term gains of about £100m for each of the four leading banks. A senior manager at HSBC believes that more avid lobbying against the regulation would have been pointless, having the potential to damage the relationship between the banks and the Treasury. Thus, relative to their low material lobbying costs, the banks’ reputation costs implied in jeopardising the time-honoured and carefully nurtured relationship of trust with the Treasury were considerable. Given these relations \( p > u \) and \( l < k \), I expect a separating equilibrium like the one in Figure 4.2 in the previous chapter, in which the policymaker is resolute and presses ahead with the regulation, while business is unwilling to bear high reputation costs and separates.

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\(^{52}\) Interview with HSBC manager, April 27, 2004. This lobbyist emphasises the government’s obstinacy, pointing out that HSBC would have been prepared to jeopardise the unwritten contract if it had felt that would have helped its case: ‘But we didn’t think that we could influence the outcome by lobbying. […] In any case, the so-called contract has in recent years disappeared, largely as a result of the Cruickshank Report plus the regulatory actions taken against the banks.’
5.3.5 Outcome

The banks reacted to the chancellor’s plans by turning the tables and arguing that the regulation might end up harming rather than helping SMEs. As I mentioned above, the banks suggested that the measures could undermine the potential competitors’ attempts to break into the market and result in price increases for loans to SMEs. This view has been partially reflected in the conclusions of a Treasury Select Committee hearing on small business banking, which stated,

The Committee was not convinced that price controls were the appropriate solution, and shares the misgivings of the Bank of England about their effectiveness in securing competition. However, we accept that in the short term the reduced charges will have a beneficial effect on SMEs. We are concerned that crude controls of this kind could damage rather than improve SME financing, and could well deter entry of the smaller banks into SME lending. The Committee is also concerned that regulation of charges could hinder competition, by reducing or eliminating a differentiating feature of new entrants’ products (House of Commons 2002, 22).

By stressing these points, the banking lobby managed to slow down the regulatory process and cash in on excess profits while they lasted. However, the Treasury Committee’s view turned out to be inconsequential for the government’s actions. As one MP serving on the committee at the time said, ‘... the Treasury will listen with interest, but not necessarily more than that’.53 Also around the time of the Competition Commission investigation, the BBA launched various press notices and pamphlets, pointing out that providers of financial services were already subject to heavy regulation. Ian Mullen, chief executive of the BBA, argued that any additional ‘crippling regulation’ may ultimately lead to a shift of focus of foreign and domestic investment from UK-based financial services to other shores (Mullen 2001).

However, with the exception of this rhetoric, the banks abstained from engaging in any costly political campaign that would underscore the severity and seriousness of the policy’s asserted negative inducement effects. Furthermore, only scant concertation of

strategy took place among the banks. Consequently, the banks soon backed down. They accepted a binding agreement with the government on July 19, 2002, under which they can choose between providing free money transmission services to their SME customers and paying interest on current accounts. In a further agreement reached on October 31, 2002, the banks committed to undertake measures to ease account switching and increase transparency of charges (HM Treasury 2002). Compliance with the announced undertakings is monitored by the Office of Fair Trading, which has since sent progress reports to the Treasury and the Department of Trade and Industry on developments in account switching processes and access to branches for SME customers (Office of Fair Trading 2003).

5.4 Phasing out PVC from public construction in Hesse

In September 1992, the Building Minister of the governing coalition of Greens and Social Democrats (SPD) in the German state of Hesse, Jörg Jordan, enacted a technical directive according to which future social housing projects should be free of polyvinyl chloride (PVC). The directive provided for an immediate ban of some PVC elements such as water and sewer pipes, and floor and wall coverings from public contract awards (Hessischer Landtag 1993a). A transition clause stipulated the phaseout of other products, including PVC-based door and window frames, from public calls for tenders beginning on January 1, 1995, thereby giving the construction and supply industry 18 months to adjust to the new requirements. By May 1993, the PVC-manufacturing and processing industry demanded that the regulation be dropped immediately, arguing that it would lead to considerable disinvestments and redundancies.54 The government initially showed itself unimpressed by the industry’s concerns, as the directive was well-researched and backed up by a substantial body of expertise emphasising the ease of PVC’s substitution with alternative materials and the non-negative employment effects of that substitution.

5.4.1 Pledge costs

From its inauguration, the coalition has developed a strong profile on environmental policy, with a particular emphasis on principles of precautionary and sustainable substance policy in public contract awards. As one might expect, the issue was particularly

important for the Green coalition partner, but less so for the Social Democrats. Nonetheless, the phaseout of PVC from various applications constituted a core element of the government’s environmental policy strategy. With this policy, the government catered for a steady and increasing demand among the electorate for the protection of the environment and the containing of man-made health and safety hazards. Throughout the 1980s, chlorine has been the one material most frequently involved in hazardous incidents. Sixty percent of personal injuries related to these incidents are directly attributable to the release of chlorine (Darimont 1995, 285). PVC is responsible for the release of dioxins and other toxic substances and smoke fumes in fire accidents. It also increases the technical and financial burden on waste removal, and a plethora of complex additives render many PVCs unsuitable for recycling. These hazards have gained a high level of public awareness so that PVC featured centrally among the substances causing concern and attracting negative publicity by the early 1990s. Overall, the coalition had incentives to deliver some of its promises relating to the environment. The phaseout of PVC from public construction is an obvious and, so the government thought at the time, undisputed starting point. However, while the issue was particularly important for the Green coalition partner it was not that central to the Social Democrats’ ideological profile, who were by far the bigger and more powerful party in the coalition. This view is confirmed by policymakers from both sides of the debate at the time.

5.4.2 Negative inducement effects
PVC is the quantitatively single most important mass plastic. Its production and processing accounts for a large portion of chemical manufacturing in Germany, constituting a segment that has risen continuously since the 1960s (Umweltbundesamt 2001). In 1992, approximately 1.5m tons of PVC were produced (Nolte and Joas 1995, 67). With almost half of the total use of PVC, the construction industry in turn constitutes the sin-

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55 Ibid.
56 The directive was intended by the government as a first step to implement a more general motion passed unanimously by Hesse’s parliament in May 1990 according to which all procurement and public calls for tender were to exclude the use of PVC in their terms.
57 Email correspondence with the former MP and economic policy speaker for the Green Party in the Hessian parliament, Karin Hagemann, 27 June, 2004; interview with the former parliamentary secretary and environmental policy speaker for the Free Democratic Party (FDP), Hans-Jürgen Hielscher, Wiesbaden, 23 June, 2004.
gle largest end-user (Umweltbundesamt 2001). However, a comprehensive study by the Swiss consulting firm Prognos AG found that 95 percent of all PVC uses in construction could easily be substituted using available alternatives (Prognos AG 1994, II-256-263). Prognos found further that, while some alternatives were more expensive, a large percentage of PVC uses could be substituted cost-effectively (i.e., at no or very little net increase in costs) and with a potential increase in employment of four percent. Windows and cables are part of the economically more costly segment, with substitution leading to costs increases of 36 percent. At the same time, however, all remaining construction inputs (floorings, pipes, etc.) are amenable to very cost-efficient substitution.

Around 320 firms in Hesse were involved in producing, processing and installing the products that were supposed to be free of PVC in the future if the directive became implemented. These firms would have been affected in one way or another by the directive. These include five large and fifteen medium-sized enterprises, as well as around 300 small firms. The larger firms would have been affected only marginally, as PVC processing was a minor part of their activities (Jacob 1999, 38). The smaller firms, such as building contractors and material purveyors, faced compliance costs arising from the need to switch to alternative materials. According to the industry, the directive would have destroyed up to 10,000 jobs in firms that manufacture PVC-based building material or use it in construction. While the proposed regulation would not have had the severe negative impact claimed by the industry, the government's expectation of the impact of such effects was immense. The threat of negative inducement effects was further exacerbated by an overall unfavourable economic situation: in May 1993, unemployment was at 167,000—a 28 percent increase on the same month of the previous year. Thus, from the perspective of the government at the time, potential policy costs (u) must have appeared considerable.

5.4.3 Policy costs

58 The higher costs for windows are due largely to the fact that wood is the main suitable alternative material (the cost calculations for window frame substitution include the expenses for more intensive maintenance efforts for wooden frames), while other applications such as cables and pipes can be manufactured cost-efficiently from a range of inputs (Ackerman and Massey 2003).


60 Wiesbadener Tagblatt, 15 June, 1993.
What costs would the policy entail for business if the government passed the proposal? Vinyl siding and windows have been the fastest-growing uses of PVC (and the largest after pipes), experiencing double-digit annual growth rates throughout the 1980s (Ackerman and Massey 2003, 33). Industry representatives feared that a ban of these materials from public contracts in one state would set a precedent, opening the floodgates for further regulatory inroads into PVC use in other German states and, ultimately, at the federal level. The sector had already been under pressure since the late 1980s, when the total volume of chlorine going into plastics and other chlorinated products increased only marginally. A standstill, not to mention a fall, in the demand for chlorine had the potential of creating long-term costs implications for the entire chemical industry. The German-based, but globally operating, firms Bayer AG, BASF Group and the former Hoechst AG (now Doorman and Aventis), for instance, rely heavily on the chlorinated polymer industry to absorb the millions of tons per annum of hydrochloric acid, a by-product of many of their core production processes. In the early 1990s, approximately 30 percent of German primary chlorine production fed straight into PVC (Nolte and Joas 1995, 17-38). At the mercy of its end-user markets, the German chlorine industry saw its fortunes erode during the first half of the 1990s, thereby endangering its entire appendage of related industries in the wider chemical sector.

Due to concurrent developments such as the recession of the early 1990s, the ban on chlorofluorocarbon, the declining demand for chlorinated solvents, and the partial replacement of domestically produced PVCs by cheaper imports, annual primary chlorine production in Germany decreased by fifteen percent from 3.4m tons in 1989 to 2.9m tons in 1993 (Darimont 1995, 285-6). Around the same time, the European chlorine industry’s rationalisation processes resulted in plant closures in Scandinavia, Italy and the UK (Darimont 1995), thus sensitising Germany’s chemical industry to potentially unfriendly political developments.

Clearly, much more was at stake for Germany’s chlorine industry than the continuation or discontinuation of the use of PVC components in Hesse’s public housing projects. While the actual directive meant little harm to either Hesse’s construction industry or

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61 Email correspondence with the Technology and Environment officer at the Wiesbaden Chamber of Trade, 14 June, 2004.
Germany's chlorine industry, the latter in particular perceived the Hesse PVC phaseout as a first battle within a much larger struggle about the future standing of PVC in particular, and chlorinated polymers more generally. I thus consider the policy costs ($\beta$) for business to be considerable.

5.4.4 Material lobbying costs

The industry's campaign against the directive in May and June 1993 involved all-out warfare, employing all means available to resolute lobbyists. According to lobbyists involved at the time, it is impossible to quantify the costs of this campaign. However, a leading protagonist of the opposition to the policy in the Hessian parliament at the time recalls being impressed with the industry's campaign and assesses that the associated costs must have been 'relatively high'. In order to illustrate the cost dimension implied in the struggle, it should suffice here to point out that the mass demonstrations by chemical workers in June 1993 in Wiesbaden, the state's capital, and other Hessian locations alone were very costly endeavours for the firms. The protests were organised by a special lobbying organization of the PVC producers and processors, the Arbeitsgemeinschaft PVC und Umwelt, and financed by the individual firms. They took place on weekdays and involved several thousand protesters turning out on paid leave on at least three occasions. This implies deadweight labour time losses of between 500,000 and 1 million Euro.

It is at this point that the interactive nature of the signalling game is most relevant. Even a lobbyist willing to invest in a costly political campaign would have still faced only moderate costs compared with the long-term costs of a policy for which this particular directive could have been a mere precedent. Thus, I conclude that even the considerable lobbying costs ($l$) are still less than the expected policy costs ($\beta$). Because of her possibly very high policy costs, the policymaker would be receptive to the industry's arguments. A type-2 business lobbyist can in turn exploit this sensitivity to his advantage.

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62 Email correspondence with the Technology and Environment officer at the Wiesbaden Chamber of Trade, 18 June, 2004.

63 Interview with the former parliamentary secretary and environmental policy speaker for the FDP, Hans-Jürgen Hielscher, Wiesbaden, 23 June, 2004.

64 Own estimates in consultation with the Regional Office for Hesse and Thuringia of the IG Bergbau, Chemie und Energie (Mining, Chemical and Energy Industrial Union).
and expect to get away with a bluff. As the risk of detection would have been reasonably low, I expect a pooling equilibrium in which the lobbyist always claims to be severely affected and the government always backs down.

5.4.5 Outcome

A vigorous lobbying campaign by the industry and high levels of publicity attached to the issue convinced the government to reconsider the policy, while the opposition parties scheduled a special hearing before the parliament’s Committee on Building and Urban Planning in early June. Responding to the government’s initial persistence, the industry increased the pressure, and in June 1993, Hesse witnessed one of the most vigorous political campaigns of the state’s post-war history. The firms and employers’ organisations convinced the chemical workers trade union and the works committees in the individual firms that slashing the directive was vital for the future employment of their members. Union executives then declared that the PVC phaseout would have disastrous effects on the labour market (Arbeitsgemeinschaft PVC und Umwelt e.V.).

With the workers on board, the scene was set for the centrepiece of the campaign – a series of mass rallies in Wiesbaden, whose peak, on June 14, 1993, saw a turnout in excess of 4,000 workers (6,000 according to industry sources) from the chemical and plastics industry demonstrating outside Hesse’s parliament and in Wiesbaden’s main square. The protests took place at daytime on weekdays, and the workers had been given paid leave by their employers to attend. A letter-writing campaign led to the cluttering of Green and Social Democratic MP’s desks. And full-page advertisements in the local and regional press hammered home the benefits of PVC production and the economic disaster associated with its partial ban as a building material. Moreover, the campaigners managed to take the building material purveyors, building contractors, and other micro businesses on board, even though for them it would arguably make little difference which particular materials the window frames and floor tiles they sell and install are made of.

66 ‘Aus für PVC-Verbot in Hessen’, *op. cit.*
The opposition parties in the Hessian parliament demanded a roll-call vote on a bill slashing the directive, which was intended to put the Social Democrat MPs under the pressure of increased scrutiny from their working class voters (Hessischer Landtag 1993b). As a result, rifts ensued in late June, first among factions within the SPD parliamentary party, and later between the Greens and the Social Democrats, with the Greens defending the directive for some time, whereas the Social Democrats had by late June become willing to scrap it. Eventually, the Greens gave in and, on July 22, 1993, a compromise bill was debated and passed in parliament (Hessischer Landtag 1993c, Hessischer Landtag 1993d, 04197). Looking back two months later, head of government Hans Eichel (SPD) commented, ‘the preservation of jobs had to have priority.’

5.5 Conclusions

The case studies are consistent with the predictions of the signalling model. They refer to two equilibrium outcomes, one in which business tells the truth about the state of the world, and another in which the high policy costs for business generate incentives for lying. Both outcomes are difficult to explain using other approaches to the study of business political power. In the first case, a policy network approach would propose a victory for the banks, which have traditionally enjoyed a privileged existence in the City-Treasury-Bank policy community (Grant 1993, pp. 69-76). A pluralist analysis of this case would also suggest a victory for the banks who, compared with other British industries have traditionally enjoyed superior command over politics. Likewise, theories of the structural power of business would have led us to expect the banks to carry the day due to their structurally privileged position, in particular with respect to the implementation of the policy. Thus, the factors that are emphasised by policy network, pluralist and structuralist explanations of business political power make the case of British small business banking a ‘hard case’ in the sense that the values of the contextual variables are distinctly unfavourable to my hypothesis. Yet, the application of the signalling model developed in Chapter 4 suggests that, despite its structurally privileged position, business sometimes has little choice but to back down and bear the costs of policy for

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70 Wiesbadener Tagblatt, 30 June, 1993.
71 Hersfelder Zeitung, 16 September, 1993.
the sake of preserving its good reputation as an advisor to political actors. This was indeed the case for the big four British high street banks.

Turning to the case of PVC phaseout, pluralist models of interest group politics would have warranted a prediction of business failure due to the high levels of publicity surrounding the policy struggle (cf. Gormley 1983; Mitchell 1997, 191-7). Structural power theories, with their emphasis on objective structural constraints would have had particular difficulties accounting for the outcome of this episode. On the one hand, the lack of objective compelling structural constraints would warrant a defeat for business. On the other hand, the classic theory of business’ structural power does not allow for business to lose out against non-business interests. A network or policy community analysis may also have produced inconclusive results, with predictions being contingent on whether the traditional policy community involving the chemical industry is emphasised (Grant, Paterson and Whitston 1988), or the discontinuity of that community due to the presence of a Green party coalition partner. Because of its explicit treatment of information asymmetry, the informational model of business political power enables me to explain why the Hesse government decided to withdraw the policy even though it would not have led to the negative inducement effects predicted by business. The leading Green party parliamentarian involved in the episode at the time, Karin Hagemann MP, maintains that any claims about job losses were simply wrong. It should be acknowledged, however, that proponents of the industry side continue to emphasise the economic damage that would have been caused by the policy. The high expected costs that might have occurred if the industry’s predictions were truthful would have been damaging to the government. Faced with rising unemployment and a business community that behaves convincingly as if the situation was critical, the Hessian government was willing to heed the industry’s warnings.

It could be argued that the classic theory of business’ structural power would have predicted the outcome of the PVC case by reference to the major policymaker’s beliefs that

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72 Email correspondence with the former MP and economic policy speaker for the Green Party, Karin Hagemann, June 27, 2004.

73 Interview with the former parliamentary secretary and environmental policy speaker for the Liberal Democrats, Hans-Jürgen Hielscher, Wiesbaden, June 23, 2004.
the economic end electoral costs of the policy were high. In this sense, the informational theory of business political power does not so much contradict structural dependence theories as it complements them by providing the cognitive and strategic link between ‘objective’ economic-structural facts on the one hand, and political decisions and strategic behaviour on the other. Similarly, the case of British small business banking illustrates that evidence in support of the informational theory of business political power does not per se discredit notions of the structural dependence of the state on capital. While Gordon Brown’s policy clearly violates the interests of one fraction of capital – the oligopolistic small business retail banking sector – it can also be viewed as favouring what can be perceived as the interests of capital overall by strengthening other banks and SMEs, and by promoting competition, which benefits the economy as a whole. Again, what the informational theory of business political power brings to light, and the two case studies in this chapter illustrate, is the extent to which strategic and communicative processes are required to serve as the link between structural parameters and political action, thereby explaining outcomes that are far from obvious from the viewpoint of other theories of business and politics.

In allowing for sources of relevant information independent from the lobbyist and substituting a plethora of micro-businesses for a constituency of ‘ordinary people’, the working class, or other strictly non-business interests, the case of small business banking highlights the importance of the information gap between business and policymakers as an explanatory variable. In order to obtain a reliable picture of the potential adverse effects of regulation, the government went to great lengths to assess all aspects of the policy when it decided to have the matter thoroughly investigated by the Competition Commission. This process unearthed valuable information for the Treasury on the basis of which it could update its expectations about negative inducement effects independently from information supplied and interpreted by the banks. Indeed, perhaps the most significant insight gained from the analysis of this case is the extent by which the Commission’s privileges of full insights into the banks’ books reduced the information asymmetry between the banks and the policymaker.

The case highlights the importance of business’ informationally privileged position and also gives a novel meaning to the well-established importance of cohesion and unity among business to prevailing in political struggles. Central to network approaches to the
study of business political power, business unity and structural equivalence are seen as prerequisite for the formulation of common preferences and the unidirectionality of the use of political resources (Mizruchi 1992; Smith 2000, 13-35). From the perspective of the informational model of business political power, however, business unity and structural equivalence reduce the risk of sending conflicting signals, thereby diminishing the scope for policymakers to obtain independent information. The high-quality information and assessment provided by Cruickshank, the Competition Commission, and various City analysts reduced the information asymmetry in favour of the policymaker. It is ironic that this determination of policymakers who ‘know better’, a characteristic that has become firmly associated with successive Thatcher governments (cf. Richardson 2000, 1009-1010), has found a recent incarnation in the Labour Party’s take on competition in small business banking.

The information gap between business and policymaker turned out to be decisive for the outcome of the case of PVC phaseout in Hesse. The explicit role of information asymmetry and the way strategic actors deal with this constraint depending on the values of all relevant parameters enables us to understand why business won even though the policy would not have led to negative inducement effects. Faced with rising unemployment, remaining uncertainty about the likelihood of negative inducement effects, and observing a lobbyist that behaved convincingly as if the situation was critical, the Hessian government was unwilling to take any risk and instead gave in to the industry’s lobbying. However, the net cost effect of the substitution of PVC with alternative materials would amount to a two-percent increase on the per-unit costs of social housing and similar projects. That is on average €1,150 per unit and constitutes a percentage rate that is far lower than the usual fluctuations on bids and costs in the construction industry (Bündnis 90 / Die Grünen 1997). It should be noted, finally, that the directive only referred to PVC used in social housing construction, which constitutes a segment of less than fifteen percent of the total construction market in Hesse. Thus, production costs for fifteen percent of the market can be expected to rise by two percent as a result of the directive. This increase, as the Social Democratic MP Sieghard Pawlik pointed out at the time, would not have altered any of the incumbent government’s plans for social housing and other construction contracts (Hessischer Landtag 1993b).
The PVC case also illustrates the fundamental methodological problem involved in the empirical analysis of models of asymmetric information (cf. Wilson and Kennan 1993, 54). As, in this case, business ‘won’ the signalling game, any assessment of the real costs of regulation inevitably involves counterfactual reasoning. This problem is here exacerbated by fact that, not uncommon in environmental politics, for every study predicting negative impact, there is another one claiming the opposite. Even worse, one and the same study can often be interpreted to support either of two opposing interpretations.74 Therefore, it is necessary to assess the model of business informational power against less anecdotal data. In the next two chapters, I report quantitative tests of micro and macro-level observable implications of the model. The micro-level tests in the following chapter deal with implications relating to the costs of lobbying, in particular reputation costs. The macro-level analysis in the chapter thereafter tests the predictive capacities of the informational structural variables in the model: the size of the information gap between business and politics, and the size and likelihood of negative inducement effects.

74 According to a senior technical consultant, this was the case with the Prognos study cited above (Interview with Rainer Nolte, managing director of Ecotec Institut für chem.-techn.-ökolog. Forschung u. Beratung, Munich, April 29, 2004).
6 Micro-quantitative Evidence: MPs’ Exposure to Business Lobbying and Perceptions of Informativeness

The big misunderstanding in PR is that it's all about who you know. In reality, who you know means nothing ... . It's all about what you know.

*Michael Prichinello, 2004*

6.1 Introduction

According to the informational model of business political power developed in Chapter 4, business lobbyists base their decision to lobby on the expected costs and benefits of lobbying. In practice, this involves balancing the expected costs in terms of campaign costs and possible damage to reputation against the expected benefits of averting an unfavourable policy or attaining a desired policy (which is essentially the same thing). The model has a range of individual-level observable implications for the behaviour of policymakers and lobbyists. It implies that policymakers will be more likely to override business' messages if, *ceteris paribus*, they have little to lose from incorrectly dismissing as idle babble what is really an informative signal. This condition is given, for example, in the case of individual legislators nearing retirement, as well as for those whose incumbent government is enjoying a post-election honeymoon period during which the extent to which they attract blame for undesirable socio-political developments is generally limited (see Cornwell 1976; MacKuen, Erikson and Stimson 1992). Policymakers also have reduced incentives to heed business’ advice if they have invested strongly in their reputation as advancing the fate of the working class or fighting for a cleaner environment.

Turning to the lobbyists, we would expect them to give higher weight to their reputation in circumstances that have been characterised by close, well-nurtured relationships with
policymakers. At the same time, the extent to which a business lobbyist can expect to get away with exaggerated claims of negative inducement effects is contingent on the political situation of the policymaker. If the policymaker enjoys high levels of public support and if her other policies have largely been perceived as successful, she will be in a position to act tough. As a result, business will be less inclined to make bold assertions — assuming that making bold assertions implies making occasionally untruthful assertions. By contrast, if the policymaker’s political situation is precarious, business can expect policymakers to be more responsive to its demands if they are expressed with some vigour.

Many of these implications are difficult to evaluate empirically due to a lack of appropriate data. However, some micro-level implications of the signalling model of business power can be assessed in quantitative tests, using information that is already available to political researchers. In the following sections, I develop and test a number of hypotheses concerning the reputational costs of lobbying, using individual-level data on the behaviour and various characteristics of the members of eleven national parliaments in Europe (6.2). This is followed by a section assessing the relationship between business contacts and influential impact of lobbyists on policymaking (6.3). The concluding section discusses the empirical findings in the light of past and present research on business, politics and lobbying (6.4).

6.2 Lobbying, reputation costs and the ideological proximity of business and policymakers

According to the signalling model of lobbying, business lobbyists have incentives to make the negative repercussions of public policy at times sound more dramatic than they actually are. At the same time, however, business faces constraints on its capacity to duplicitously promulgate the negative inducement effects of policy. These constraints arise from business’ vital, long-term interest in maintaining its reputation as a supplier of high-quality information (Berry 1989, 143-146). Policymakers, on their part, are suspicious of the possibility of misrepresentations by business. If, in a given policymaking/lobbying scenario, it turns out that the business lobbyist duplicitously warned the policymaker about negative inducement effects, business may end up damaging its relationship of trust with the policymaker. The policymaker will be disappointed and, ac-
according to the model, may react by inflicting an exogenous penalty \( (k) \) for lying on business. This penalty can be interpreted as the behavioural consequences of a damaged reputation, such as the denial of access to the policymaker for future representations. I assume that misinformation can only be detected if the policymaker actually passes the policy. By contrast, if the policymaker heeds business' warning and withdraws the policy, she will forgo her chance to find out what would have \textit{really} happened if she had pushed through with their plans. Therefore, when deciding whether or not to lobby, business will be careful to avoid situations in which exaggerated predictions can be exposed as such. By thus considering the \textit{reputational} costs of 'lying' in addition to the \textit{material} costs of lobbying, the model expands on previous signalling models.

According to the German nineteenth-century caricaturist Wilhelm Busch (Busch 1975 [1865]), once a person’s reputation is damaged, he has total freedom to say and do whatever he likes, simply because, as far as his good reputation is concerned, things cannot get much worse from thereon. This implies that if someone never had a particularly good standing with another person and if, regardless of his actions, prospects are poor for him to gain a reputable position in the eyes of the other person, he is fairly free to make immoderate claims without risking noteworthy damage to his reputation. Applying this logic to the world of lobbying, the price to be paid for bold lobbying can be expected to vary with the quality and nature of the relationship between business and policymakers. Intuitively, where there is only a weak relationship of trust in the first place, business should feel less restrained from making bold claims. This implies, in turn, that business lobbyists can be more daring, and thus to some extent discount \( k \), if and when they have a relatively poor relationship with policymakers. Conversely, lobbyists should feel obliged to restrict their messages to true claims more effectively when their relationship with policymakers has traditionally been characterised by mutual respect, trust, and a genuine interest in the views of the other party. Even for 'bad apples' among business, some minimum level of credibility must of course be assumed throughout. If a lobbyist's reputation is entirely ruined, their messages will be consistently ignored as uninformative babble. In turn, they will not find it worth their while to expend any money, time, or effort on lobbying. The result is a silence equilibrium.

Do different businesses vary much with respect to their trustworthiness? One might think here of differences in trustworthiness between, on the one hand, firms that feel
some kind of obligation towards the public good, and, on the other hand, 'bad apples' that have a tendency to cry wolf on every occasion to advance their private interests. The imperative to further the good of the firm in the light of unforgiving market forces and fundamental uncertainty will generally set rigid limits on the ability of individual owners and managers to display altruistic virtues with respect to public policy that affects their firm's operations and profits. Furthermore, it is possible that some commercial activities are easier understood by policymakers than others, thus reducing the informational gap between regulator and regulated.

Few systematic differences along the lines of sectors, firm size or other characteristics appear plausible. However, as there are at least two parties to every relationship – what about the policymaker? The quality of the government-business relationship is likely to vary with the type of policymaker as well as with the type of business. Assuming for a moment a relative homogeneity in this regard among businesses, it is widely accepted, and conforms to much common-sense knowledge, that policymakers vary systematically in the relationships they maintain with business (Grant 1993, 125-145). A typical source of such variation is party membership or partisan attachment. According to Wilson (1990a, 24),

[in] most, if not all democratic nations, one political party is more closely associated with business than are others. ... The Republican Party in the United States, the Liberal Democratic Party in Japan and the Conservative Party in Britain are all examples of political parties closely associated with business.

According to this logic, right-leaning and market-liberal politicians, parties and governments can be assumed to maintain closer relationships with the business community in their countries than would their left-leaning colleagues. From the perspective of business, the reputational constraint is arguably stronger with respect to pro-business, i.e., right-leaning, policymakers. Thus, we can expect left-leaning policymakers to be 'lied to' more frequently by business compared to their conservative counterparts. Similarly, we would expect members of business-friendly political parties to receive mainly sincere messages, while environmentalist policymakers, such as members of Green parties, will be more likely to receive misrepresentations about policy costs.
Damage to business reputation as a provider of good information can be incurred in two ways that each affect the likelihood of lobbying contingent on the relationship between business and the policymaker. Firstly, if the business-policymaker relationship is characterised by cooperation and trust, as is the case in corporatist or neo-corporatist systems of interest intermediation or when the policymaker is of a business-friendly party, much is at stake for business if untruthful lobbying goes wrong. Secondly, while business lobbyists can sometimes expect to get away with lying, they will rarely be certain as to whether a policymaker will heed the signal or call a bluff. However, they can expect the risk to be higher when the policymaker is left-leaning. Thus, in the face of a non-zero risk of detection, business will remain silent more often when it enjoys a good standing with the policymaker, i.e., when the policymaker is of the pro-business or non-left kind.

The true amount of untrue signals cannot be known. Accurate counts of untruthful lobbying are very difficult to come by. While no data is available to measure the relative frequencies of true versus untrue lobbying messages, I can make use of individual-level measures of policymakers' interaction with various types of lobbyists – above all business versus non-business lobbyists, such as trade unions and public interest groups. And if untruthful signals are unequally distributed between left and right-leaning recipients, there are good reasons to believe that this distribution is to some extent reflected in the relative distribution of lobbying by type of policymaker – whether truthful or not. Recall that business is often itself not fully certain about the likelihood of negative inducement effects, but tends to deal with the remaining uncertainty in a conservative way. That is to say, businesses themselves will often not know with certainty whether their lobbying messages are strictly speaking true or untrue. However, they will be more careful with respect to spreading potentially untruthful signals when doing so might harm their reputation. Thus, while there will not be a perfect correlation between frequency of lobbying and frequency of lying (if there was, policymakers would be able to make precise inferences about everything that is known to business merely by observing its lobbying efforts!), we can assume that the frequency of lying will increase in the frequency lobbying, albeit by a factor unknown to us and to the policymaker. Therefore, frequency of lobbying serves as a useful approximation for 'lying'.
6.2.1 Data: The 1996 European Members of Parliament Study

The data used in this chapter are taken from the 1996 European Members of Parliament Study, which is part of a wider research project on political representation in Europe (cf. Katz and Wessels 1999; Schmitt and Thomassen 1999; Wessels, Kielhorn, and Thomassen 1997). The data have been generated through a mail survey among members of the national parliaments of Belgium, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and Sweden. A total of 1,412 MPs returned the questionnaires. Split up by countries, response numbers range from 28 (Luxembourg) to 317 (Germany), and return rates vary between 14.9 percent (Italy) and 90.3 percent (Sweden). These rather big differences in return rates are not desirable. However, they are unlikely to lead to methodological problems, as weights are available by which the estimates that follow have been standardised with respect to the size of the subpopulations, i.e., the national parliaments. Moreover, the impact of varying return rates will be minimal as the estimates of interest obtained in the following analysis and reported below concern relations between variables rather than univariate distributions (see also Katz and Wessels 1999, 251; Schmitt and Thomassen 1999, 272). The variable codings and survey items used are introduced as they become relevant in the analyses that follow. A detailed description of the data, survey questionnaire items used, and coding of variables is provided in Appendix I.

A first glance at the data suggests that, irrespective of the type of policymaker, business lobbies more frequently than public interest groups (environment and consumers), but slightly less frequently than trade unions. The relative frequencies of MPs’ contacts with various lobbyists and societal interests vary between 24.4 percent of MPs having frequent contact with public interest groups and 35.5 percent reporting frequent contact with trade unions. Frequent business contacts are in between, if very close to trade union contacts, with 33.9 percent reporting frequent business contacts. Frequent contact is defined here as an MP’s contact with the respective interest group ‘at least once a month’. It is possible, however, that serious lobbying is only really tapped by more intensive interaction than by what can be achieved by monthly contacting. Therefore, I also look at the distributions of interest group contacts ‘at least once a week.’ Here, quite similarly to frequent contacting, very frequent contacts are lowest for public interest groups (3.12 percent) and highest for trade unions (8.07 percent), with business once again in the upper chunk at 6.8 percent. While it is reasonable to assume that both
monthly and weekly group contacts measure the same phenomenon, I will conduct separate analyses for frequent and very frequent lobby contacts.

Assuming, as I outlined above, that policymakers’ ideological orientations or partisan attachments serve as reasonable proxies for the quality of the relationship between business and political decisionmakers, to what extent are patterns of business lobbying contingent on these orientations and attachments? To answer this question, I examine the relative frequencies of MPs that reported frequent contact with business representatives with three alternative indicators of MPs’ ideological orientations and attachments: (1) whether they belong to a political party that is traditionally seen as an ally of business, (2) their self-placement on an ideological left-right scale, and (3) whether they view the environment as an important political issue. If those MPs that are assumed to have close relations with business – i.e., those of a right-of-centre political orientation or with little concern for the environment – are lobbied less frequently, the informational model of business political power is supported.

Despite this, the relative frequency of lobbying should be higher for left-of-centre or environmentalist policymakers for two reasons: Firstly, business is particularly keen to avoid sending untruthful messages to pro-business policymakers for reasons related to its reputation and good standing with natural political allies. And if, as I argued above, total untruthful lobbying increases with the frequency of lobbying, business has incentives to restrain overall lobbying of business-friendly politicians. Secondly, because of their ideological outlook, pro-business policymakers are less likely in the first place to generate policy proposals that run counter to business interests or fail to correctly understand what observing business interest involves for specific policy areas. Pro-business policymakers thereby produce fewer occasions for which informative lobbying may be necessary in the first place. For these reasons, I expect business to lobby left-leaning and environmentalist parliamentarians more frequently than their more pro-business counterparts.

However, the structural nature of the information asymmetry between business and policymakers implies that pro-business legislators will also be lobbied by business, if simply to become informed about the details of the pro-business policies they seek to enact. Recall, moreover, that definitive proof of business’ exaggeration or misinterpre-
tation concerning a policy’ negative consequences is only forthcoming if the policy is actually implemented. Because of politicians’ incentives to redeem policy pledges, left-leaning policymakers are more likely to push ahead with their policy irrespective of business’ representations. Therefore, untrue claims are more likely to be exposed when made to ‘anti-business’ parties as opposed to ‘pro-business’ parties, who face lower pledge costs associated with pro-business policies and are therefore more likely to heed the claims. This, in turn, implies the exact opposite of the previous consideration: faced with a greater likelihood of exposure, and assuming that misrepresentations increase with the overall frequency of lobbying, left-leaning parties will be lobbied less frequently. In the absence of compelling theoretical reasons for favouring one of these two conflicting expectations over the other, I expect that the partisan and ideological identity of the policymaker makes a difference for the frequency of business lobbying.

We might not expect members of opposition parties to be lobbied to the same extent or in the same way as members of government parties. Intuitively, we would expect government MPs to be lobbied more often than opposition MPs, simply because the former are usually more important when it comes to policymaking. While, there are competing theoretical claims and conflicting evidence in the literature as to exactly when and why lobbyists should address incumbent policymakers or opposition MPs, most authors focus on the institutional and procedural set-up of legislative bodies (see for example Krehbiel 1999; Grossman and Helpman 2001, 283-317). For the purposes of the present analysis it suffices to note that being a member of a government party will not be irrelevant to the frequency of lobbying. To control for this factor, I obtain separate proportions for government and opposition MPs. MPs are coded as ‘government MP’ if they belong to a party that participated in the government at the time the surveys were conducted. For details of the coding scheme see Appendix I

6.2.2 Analysis

Relative frequencies for frequent contacts with various types of lobbyists – business, trade union, and public interest – are grouped by government incumbency and shown in Table 6.1. Table 6.2 displays the same information for very frequent contacts. Looking at the data, my expectation that business-friendly MPs are lobbied less frequently by and large fails to be born out. As can be seen from Table 6.1, members of business-friendly parties are lobbied at least as frequently as other MPs, and often more fre-
quently. This holds for government MPs as much as for opposition members, and for frequent contact (Table 6.1) as well as for very frequent contact (Table 6.2). None of these differences, however, are statistically significant.

### Table 6.1 MPs' frequent contact with business by party type

<table>
<thead>
<tr>
<th>Party type</th>
<th>Anti-business</th>
<th>Pro-business</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>30</td>
<td>44</td>
<td>3.12</td>
</tr>
<tr>
<td></td>
<td>(57)</td>
<td>(83)</td>
<td></td>
</tr>
<tr>
<td>Opposition</td>
<td>33</td>
<td>40</td>
<td>0.94</td>
</tr>
<tr>
<td></td>
<td>(46)</td>
<td>(85)</td>
<td></td>
</tr>
</tbody>
</table>

*Note: Cell entries are percentages of MPs who reported to have contact with business interest groups (industry, trade and commerce, or banking and insurance) at least once a month. Weighted cell counts in parentheses. Survey design corrected F-test: *significant at 10%, **significant at 5%, ***significant at 1%. Source: 1996 European Members of Parliament Study.*

### Table 6.2 MPs' very frequent contact with business by party type

<table>
<thead>
<tr>
<th>Party type</th>
<th>Anti-business</th>
<th>Pro-business</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>7.1</td>
<td>8.5</td>
<td>0.29</td>
</tr>
<tr>
<td></td>
<td>(13)</td>
<td>(16)</td>
<td></td>
</tr>
<tr>
<td>Opposition</td>
<td>6.1</td>
<td>7.7</td>
<td>0.44</td>
</tr>
<tr>
<td></td>
<td>(9)</td>
<td>(16)</td>
<td></td>
</tr>
</tbody>
</table>

*Note: Cell entries are percentages of MPs who reported to have contact with business interest groups (industry, trade and commerce, or banking and insurance) at least once a week. Weighted cell counts in parentheses. Survey design corrected F-test: *significant at 10%, **significant at 5%, ***significant at 1%. Source: 1996 European Members of Parliament Study.*
Looking at left-right ideological self placement, fewer MPs who classify themselves as leftwing report to be *frequently* lobbied by business compared with their rightwing peers. This finding holds regardless of whether they belong to the government or opposition parties (Table 6.3). With respect to *very frequent* lobbying, few systematic differences can be discerned between leftwing and other MPs (Table 6.4). Overall, the differences are quite small and statistically insignificant. Similarly, as can be seen from Tables 6.5 and 6.6, there are no significant differences in the lobbying patterns between environmentalist MPs and their non-environmentalist peers.

Table 6.3 MPs' frequent contact with business by left-right self-placement

<table>
<thead>
<tr>
<th>L/R self placement</th>
<th>Left</th>
<th>Non-left</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>32</td>
<td>42</td>
<td>2.62</td>
</tr>
<tr>
<td></td>
<td>(61)</td>
<td>(79)</td>
<td></td>
</tr>
<tr>
<td>Opposition</td>
<td>34</td>
<td>39</td>
<td>1.32</td>
</tr>
<tr>
<td></td>
<td>(41)</td>
<td>(90)</td>
<td></td>
</tr>
</tbody>
</table>

*Note: Cell entries are percentages of MPs who reported to have contact with business interest groups (industry, trade and commerce, or banking and insurance) at least once a month. Weighted cell counts in parentheses. Survey design corrected F-test: *significant at 10%, **significant at 5%, ***significant at 1%. Source: 1996 European Members of Parliament Study.*
### Table 6.4 MPs' very frequent contact with business by left-right self-placement

<table>
<thead>
<tr>
<th>L/R self placement</th>
<th>Left</th>
<th>Non-left</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>6.8</td>
<td>8.8</td>
<td>0.51</td>
</tr>
<tr>
<td></td>
<td>(13)</td>
<td>(16)</td>
<td></td>
</tr>
<tr>
<td>Opposition</td>
<td>6.1</td>
<td>7.6</td>
<td>0.51</td>
</tr>
<tr>
<td></td>
<td>(7)</td>
<td>(17)</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** Cell entries are percentages of MPs who reported to have contact with business interest groups (industry, trade and commerce, or banking and insurance) at least once a week. Weighted cell counts in parentheses. Survey design corrected F-test: *significant at 10%, **significant at 5%, ***significant at 1%. **Source:** 1996 European Members of Parliament Study.

### Table 6.5 MPs' frequent contact with business by environmental salience

<table>
<thead>
<tr>
<th>Environmentalist</th>
<th>Yes</th>
<th>No</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>37</td>
<td>37</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>(132)</td>
<td>(8)</td>
<td></td>
</tr>
<tr>
<td>Opposition</td>
<td>37</td>
<td>35</td>
<td>0.09</td>
</tr>
<tr>
<td></td>
<td>(119)</td>
<td>(11)</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** Cell entries are percentages of MPs who reported to have contact with business interest groups (industry, trade and commerce, or banking and insurance) at least once a month. Weighted cell counts in parentheses. Survey design corrected F-test: *significant at 10%, **significant at 5%, ***significant at 1%. **Source:** 1996 European Members of Parliament Study.
Table 6.6 MPs’ very frequent contact with business by environmental salience

<table>
<thead>
<tr>
<th>Environmentalist</th>
<th>Yes</th>
<th>No</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>4</td>
<td>8</td>
<td>0.36</td>
</tr>
<tr>
<td>(1)</td>
<td>(29)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opposition</td>
<td>5.6</td>
<td>7.2</td>
<td>0.13</td>
</tr>
<tr>
<td>(2)</td>
<td>(23)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Cell entries are percentages of MPs who reported to have contact with business interest groups (industry, trade and commerce, or banking and insurance) at least once a week. Weighted cell counts in parentheses. Survey design corrected F-test: *significant at 10%, **significant at 5%, ***significant at 1%. Source: 1996 European Members of Parliament Study.

6.2.3 Controlling for system of interest intermediation

Variation in the reputational variable and in its relationship with lobbying behaviour can also arise from the institutional setting within which the relationships between business and parliamentarians are situated. The frequency of business contacts for both government and opposition parties of all ideological types might be different depending on whether they take place in the context of a pluralist or a corporatist system of interest intermediation. In corporatist systems, business is routinely consulted during the formulation and implementation of public policy (cf. Schmitter 1977, Schmitter 1981, Cameron 1984, Lehmbruch 1984). In the words of one scholar ‘corporatism means that the state shares its public-order function with organised business and labour’ (Traxler 1999, 56). Surely, for public policymakers and business to enter into a partnership of this kind presupposes a certain level of mutual trust. What is more, this relationship is likely to further reinforce any existing levels of trust between private and public actors. Therefore, the importance of maintaining a good reputation with policymakers should be higher where these integrated patterns of interest intermediation prevail. Whether MPs operate in a corporatist or, alternatively, a more pluralist system of interest intermediation will not be irrelevant for the patterns of lobbying we observe. I perceive of corporatism as a system characterised by the institutionalised concertation of government, employers, trade unions and, less centrally, agricultural interests in the formula-
tion and negotiation of public policy, in particular economic policy (cf. Wilson 1990a, 114-116). Complementarily, I define pluralism as the more loosely structured competitive systems of interest intermediation that prevails when no corporatist structures are in place (Siaroff 1999, 177). Past analyses of corporatism have tended to involve two different uses of the term (Lijphart and Crepaz 1991, 235). The first refers to corporatism as a system of interest representation. According to Schmitter (1979, 13),

"corporatism can be defined as a system of interest representation in which the constituent units are organised into a limited number of singular, compulsory, non-competitive hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports.

The second, and more common usage, is that of corporatism as an 'institutionalised pattern of policy-formation', above all 'in the shaping of economic policy' (Lehmbruch 1979, 150). While it has been argued that the first usage refers to the formal organisation of the interest group system, while the second one is about the effective role of interest groups in the process of policy formation, and thus to some extent about 'conciliation' (Schmitter 1982, 263-264), empirically the two tend to go together (Lijphart 1999, 171). For this reason, Siaroff suggests an encompassing view of corporatism. He identifies the main features of such a unified concept of corporatism at the national level as reflecting,

within an advanced industrial society and democratic polity, the coordinated, cooperative, and systematic management of the national economy by the state, centralised unions, and employers (these latter two co-operating directly in industry), presumably to the relative benefit of all three actors (Siaroff 1999, 177).

If this is taken to be the core definition of corporatism, then its opposite, the lack of such co-ordinated and co-operative management, can be defined as ‘pluralism’. Usually, scholars dichotomise the variable into these two categories, or conceptualise it as a corporatism-pluralism continuum. Independent of concerns with political economy, collec-
tive wage-bargaining and industrial peace, corporatist policy-making also came to be associated with consensus – as opposed to majoritarian – democracy (Lijphart and Crepaz 1991). This is where the relevance of the concept for non-economic policymaking is rooted. It also opens the possibility of rating countries along a more encompassing dimension of integration of economic policymaking. One such attempt is that of Hicks (1988) who suggests a preliminary framework of national collective economic action which involves grouping national political economies into the following five types: the _capitalist pluralism_ of the USA and the UK; the _capitalist statism_ of Japan, France, and Italy; the _social democratic corporatism_ of Austria, Denmark, Finland, Norway, and Sweden; the _consociationalism_ (or ‘liberal corporatism’) of Switzerland, Belgium, and the Netherlands; and the _quadripartite corporatism_ of Germany (Hicks 1988, 149-152).

Building on these refinements and generalisations, Siaroff (1999, 189) proposes an alternative concept of integration defined as,

>a long-term co-operative pattern of shared economic management involving the social partners and existing at various levels such as plant-level management, sectoral wage bargaining, and joint shaping of national policies in competitiveness-related matters (education, social policy, etc.).

By combining most aspects of previous attempts at measuring the pluralism-corporatism contrast and averaging these over a five-point score, Siaroff’s politico-economic integration scale solves most of the problems that have tainted previous measures of these concepts (Lijphart 1999, 176). Integration, in Siaroff’s understanding, speaks to the _functional roles_ and _behavioural patterns_ noted in the ideal types of corporatism outlined earlier. However, it is not about ‘structural features’, such as the level of unionisation, or ‘favourable contexts’, such as the size or openness of a country, or the political role of social democracy (Siaroff 1999, 189). For these reasons, and because MPs’ ideological position and partisan attachment are to be measured as separate variables here, Siaroff’s concept of integration is particularly useful for the present analysis.

Operationally, I assign corporatist and pluralist dummy codes based on Siaroff’s measure for the degree of integration of political economies for the mid-1990s (Siaroff 1999). In the absence of a compelling substantive classification rule, I chose to assign corporatist and pluralist dummies according to a country’s score relative to the un-
weighted population mean of Siaroff’s scale ($\bar{X} = 3.50; \sigma_X = 0.49$). Coding all those countries as corporatist that are one-half standard deviations above the mean or higher yields a list of corporatist countries that includes Germany, Luxemburg, the Netherlands and Sweden. Conversely, France, Greece, Ireland, Italy, Portugal and Spain scored lower than one-half standard deviations below the mean; they are hence coded as pluralist. Belgium is the sole country in the middle category of systems that are neither clearly corporatist nor pluralist.

The picture looks more interesting once I control for the type of interest group intermediation system. As Tables 6.7 and 6.8 reveal, government members, but not opposition members, in corporatist systems are more likely to be in frequent and very frequent contact with business if they are from pro-business parties. By contrast, there is no such relationship between MPs’ political identity and lobbying frequency in pluralist systems.

### Table 6.7 MPs’ frequent contact with business by party type

<table>
<thead>
<tr>
<th></th>
<th>Pluralist system</th>
<th>Corporatist system</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Anti-business</td>
<td>Pro-business</td>
</tr>
<tr>
<td>Party type</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>41 (49)</td>
<td>49 (55)</td>
</tr>
<tr>
<td>Opposition</td>
<td>36 (25)</td>
<td>45 (72)</td>
</tr>
</tbody>
</table>

*Note:* Cell entries are percentages of MPs who reported to have contact with business interest groups (industry, trade and commerce, or banking and insurance) at least once a month. Weighted cell counts in parentheses. Survey design corrected $F$-test: *significant at 10%, **significant at 5%, ***significant at 1%. *Source:* 1996 European Members of Parliament Study.
Table 6.8 MPs' very frequent contact with business by party type

<table>
<thead>
<tr>
<th>Party type</th>
<th>Pluralist system</th>
<th>Corporatist system</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Anti-business</td>
<td>Pro-business</td>
</tr>
<tr>
<td>Government</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>(13)</td>
<td>(11)</td>
</tr>
<tr>
<td>Opposition</td>
<td>8.2</td>
<td>9.5</td>
</tr>
<tr>
<td></td>
<td>(6)</td>
<td>(15)</td>
</tr>
</tbody>
</table>

Note: Cell entries are percentages of MPs who reported to have contact with business interest groups (industry, trade and commerce, or banking and insurance) at least once a week. Weighted cell counts in parentheses. Survey design corrected F-test: *significant at 10%, **significant at 5%, ***significant at 1%. Source: 1996 European Members of Parliament Study.

Looking at left-right ideological self placement, fewer government MPs who classify themselves as leftwing report to be frequently lobbied by business compared with their rightwing peers. This finding holds regardless of whether they belong to the government or opposition parties, but is statistically significant only in pluralist systems (Table 6.9). With respect to very frequent lobbying, that pattern reverses: left-wing government MPs are less likely to be lobbied by business at this level of frequency in corporatist systems (Table 6.10).
Table 6.9 MPs’ frequent contact with business by left-right self-placement

<table>
<thead>
<tr>
<th>L/R self placement</th>
<th>Pluralist system</th>
<th>Corporatist system</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Left</td>
<td>Non-left</td>
</tr>
<tr>
<td>Government</td>
<td>39</td>
<td>52</td>
</tr>
<tr>
<td></td>
<td>(50)</td>
<td>(54)</td>
</tr>
<tr>
<td>Opposition</td>
<td>36</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>(25)</td>
<td>(72)</td>
</tr>
</tbody>
</table>

Note: Cell entries are percentages of MPs who reported to have contact with business interest groups (industry, trade and commerce, or banking and insurance) at least once a month. Weighted cell counts in parentheses. Survey design corrected F-test: *significant at 10%, **significant at 5%, ***significant at 1%. Source: 1996 European Members of Parliament Study.

Table 6.10 MPs’ very frequent contact with business by left-right self-placement

<table>
<thead>
<tr>
<th>L/R self placement</th>
<th>Pluralist system</th>
<th>Corporatist system</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Left</td>
<td>Non-left</td>
</tr>
<tr>
<td>Government</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>(13)</td>
<td>(12)</td>
</tr>
<tr>
<td>Opposition</td>
<td>8.9</td>
<td>9.2</td>
</tr>
<tr>
<td></td>
<td>(6)</td>
<td>(15)</td>
</tr>
</tbody>
</table>

Note: Cell entries are percentages of MPs who reported to have contact with business interest groups (industry, trade and commerce, or banking and insurance) at least once a week. Weighted cell counts in parentheses. Survey design corrected F-test: *significant at 10%, **significant at 5%, ***significant at 1%. Source: 1996 European Members of Parliament Study.
Finally, in pluralist systems, fewer environmentalist MPs report monthly business contacts compared with their non-environmentalist peers, while the opposite is true for corporatist systems (Table 6.11). The percentage of MPs reporting frequent lobbying in pluralist systems is almost twice as big for non-environmentalists as it is for environmentalists. By contrast, in corporatist systems, over twice the proportion of environmentalist government MPs report at least monthly business lobbying (53 percent), compared with other MPs (22 percent). Unfortunately, this finding is not reproduced in the table reporting very frequent business contacts, where few small differences suggest that slightly fewer environmentalists in both systems contexts report weekly or more contact than their non-environmentalist peers (Table 6.6).

Table 6.11 MPs’ frequent contact with business by environmental salience

<table>
<thead>
<tr>
<th>Environmental salience</th>
<th>Pluralist system</th>
<th>Corporatist system</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmentalist</td>
<td>25</td>
<td>46</td>
</tr>
<tr>
<td></td>
<td>(3)</td>
<td>(102)</td>
</tr>
<tr>
<td>Opposition</td>
<td>36</td>
<td>42</td>
</tr>
<tr>
<td></td>
<td>(6)</td>
<td>(91)</td>
</tr>
</tbody>
</table>

Note: Cell entries are percentages of MPs who reported to have contact with business interest groups (industry, trade and commerce, or banking and insurance) at least once a month. Weighted cell counts in parentheses. Survey design corrected F-test: *significant at 10%, **significant at 5%, ***significant at 1%. Source: 1996 European Members of Parliament Study.
Table 6.12 MPs' very frequent contact with business by environmental salience

<table>
<thead>
<tr>
<th></th>
<th>Pluralist system</th>
<th>Corporatist system</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Environmentalist</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>7.3</td>
<td>11</td>
</tr>
<tr>
<td>(1)</td>
<td>(24)</td>
<td>(0)</td>
</tr>
<tr>
<td>Opposition</td>
<td>9.4</td>
<td>9.1</td>
</tr>
<tr>
<td>(2)</td>
<td>(19)</td>
<td>(0)</td>
</tr>
</tbody>
</table>

Note: Cell entries are percentages of MPs who reported to have contact with business interest groups (industry, trade and commerce, or banking and insurance) at least once a week. Weighted cell counts in parentheses. Survey design corrected $F$-test: *significant at 10%, **significant at 5%, ***significant at 1%. Source: 1996 European Members of Parliament Study.

Summing up the findings of this section, I can say that frequency of MPs' contact with business lobbyists is weakly dependent on MPs' ideological orientations, the relationship of their party to business, or their attitudes toward the environment. Where there is a mild difference, reports of frequent or very frequent contact are generally more likely to come from right-leaning, business-friendly, and non-environmentalist MPs. These results are highly contingent on the type of interest group intermediation system. Where differences in lobbying behaviour are related to partisan identity and ideological position, this is mostly the case in corporatist systems. Environmentalist positions of MPs, however, have a significant negative effect on lobby contacts in pluralist systems, while environmentalist MPs in corporatist system are significantly more likely to be contacted by business.

The findings contradict my hypothesis according to which business-friendly, right-wing and non-environmentalist MPs should be targeted less frequently by business due to business' incentives to maintaining its good relationship with traditional allies. One exception to these findings concerns business lobbying patterns in corporatist systems.
Here, opposition MPs are lobbied more frequently if they have a political background or outlook that is at loggerheads with business, thus supporting my expectations at least in this narrowly circumscribed area. Yet, this pattern extends into very frequent contacts in addition to frequent contacts only for party type, and here the difference is not very large. With respect to MPs' commitment to the environment, the general negative findings for government party MPs are reversed in favour of my theory. While this is not replicated for the measure of weekly and more contacts, this finding should alert students of interest group lobbying and environmental politics to the possibility that lawmakers with a strong environmentalist platform may be particularly vulnerable to extreme levels of lobbying by business. Moreover, if, as my model states, frequency of contact is indicative of increased possibilities of misrepresentations, environmentalist lawmakers are also more prone to being lied to. The contrary expectation that pro-business parties are lobbied more frequently than others because untruthful lobbying is less likely to be exposed fares better in these tests. Overall, I can conclude that the partisan identity and ideological position of MPs matters for the frequency with which they are contacted by business. Thus, the implication of the informational model of business political power, that the reputation of the lobbyist has a constraining effect on lobbying activity, receives some support.

6.3 Business contacts and influential lobbying

Another implication of the informational theory of business political power is that the expertise and knowledge owned by business is of importance for the capacity of policymakers to make informed decisions. According to my model, policymakers are interested in the information provided by business because business has privileged and first-hand insights into important parameters affecting the costs and effects of public policy. My theory implies that the private information held by business is more valuable than information held by other, non-business groups – regardless how efficiently organised, vociferously active or well-connected the latter may be. As a result, business interests gain disproportionate influence over public policy in addition to any possible advantages resulting from their structurally privileged position (Lindblom 1977) or their superior resources for political action (McFarland 1991, Vogel 1996, Wilson 1990b).
The economic and social implications of the policy-relevant speech acts of business typically carry much more weight than those made by other organised interests. For instance, when Craig Barrett, the chief executive of Intel, drops a remark to the Irish government about its tax policy, this is likely to have a bigger influence on policymakers’ decisions than various militant grassroots campaigns against service charges, such as the ‘Fingal Anti Bin Tax Campaign’ staged by public interest groups aiming to scrap charges for household waste removal in the Dublin area.\(^\text{75}\) The reasons for this are at the core of the classic theories of business structural power. And the actors involved do not shy away from openly threatening that any set of policies other than that condoned by business may have disconcerting effects. Dwelling on the above example a little further, Intel, the world’s biggest semiconductor producer, put it to the Irish government in 2004 that any change to Ireland’s cutthroat tax regime, which offers very attractive tax breaks and direct giveaways to foreign investors, would lead to negative inducement effects that harm the Irish economy. In particular, Barrett claimed, any change would induce Intel to reconsider investment plans such as those concerning a $2 billion (€1.66 billion) microchip fabrication plant in Leixlip, Ireland. This investment brings with it the immediate creation of up to 400 jobs within eighteen months, not including the benefits of multiplier effects for the local and regional economy.\(^\text{76}\) Taking the size of Ireland’s national economy into account, it is not hard to see how an investment project of this dimension could make all the difference for the popularity of elected politicians. Warning that Ireland should be careful not to price itself out of a competitive position, Barrett hinted at other countries and regions that failed to heed business’ political preferences and ended up paying a high price for such disobedience:

If you want an example of this type of non-business friendly environment just look at California, which has priced itself out of competition for manufacturing facilities. It got so bad there that they effectively threw out their governor. So it is possible for this thing to happen.\(^\text{77}\)

\(^{75}\) ‘Most Dublin bin collections likely to be disrupted today’, *Irish Times*, October 20, 2003.

\(^{76}\) ‘€1.6 billion investment by Intel will create 400 jobs’, *Irish Times*, May 20, 2004.

One can only imagine how the prospect of ‘being thrown out’ has the potential to send shivers down the spine of any elected politician. Thus, Barrett advised that the Irish government should continue to offer ‘aggressive’ incentives to foreign firms, such as low rates of corporate tax, to attract investment and high-quality jobs. It is not difficult to see how such advice carries more weight than threat from the bin charge protesters that the government will disgruntle its members unless the charges are dropped. While the bin charge protesters can create disturbances, the clout of business’ speech acts rests in their prediction of seriously disturbing prospects. Moreover, more than other groups, business is to a large extent the sovereign architect of its fate. That is to say, if a company ‘predicts’ that a policy will force it to shut down a plant (or prevent the opening of a new one), it is ultimately this company alone that avails of the rights and powers to realise this prediction.

If these implications of my theory concerning the unmatched clout of business’ political messages hold, we should expect policymakers to systematically pay more attention to information received by business, while being able to ignore messages from non-business groups. Policymakers should tend to take business messages more seriously, while they may be more at liberty to ignore, override, or discount messages sent to them by other groups. A given frequency of interest group contact to policymakers should therefore have a higher effect when the contacting group is business and a lesser effect when the contacting group represents other interests, such as consumers or environmentalists, ceteris paribus. Thus, irrespective of the fact that policymakers are suspicious of business’ temptations to misrepresent the costs of policy, contact by business lobbyists should lead to more influence over public policymaking than contact by other groups, such as trade unions or public interest groups.

I can test this proposition using the European Members of Parliament study, which contains data on the extent to which MPs take in account the opinion of lobbyists when making policy decisions. In particular, I compare the influence parliamentarians are willing to grant lobbyists when making political decisions changes depending on whether they have frequent contact with business interests, trade unions, and public interest groups, respectively. It should be pointed out that elected politicians cannot be relied upon to give accurate and sincere answers to such questions. I expect that the influence conceded to lobbyists will generally be understated. While the phenomenon of
underreporting of undesirable (or over reporting of desirable) behaviour is common in elite survey research, it does not appear plausible that the size of the downward bias is in any systematic way related to the other variables. I therefore do not expect general validity problems with elite interviews to pose problems in the present context.

This time I am only interested in government MPs. In order to compare the influence of business contacts with other group contacts, changes in attributed lobby influence were obtained separately for the three types of interests groups. Column two of Table 6.13 shows the influence over their policy decisions that MPs ascribe to lobbyists when they are contacted less than once a month by business. The next column, displays the gradations of influence if business contacts are reported at least once every month. Column four, finally, shows the difference in lobbyist influence. Columns five through seven repeat the same comparison for trade union contacts, and columns eight to ten show changing gradations of influence as contingent on public interest group contacts.

---

78 I also obtained relative frequencies of contact for opposition MPs and found they are no different from those for government MPs.
<table>
<thead>
<tr>
<th>Influence of Lobbyists</th>
<th>Business contacts</th>
<th>Union contacts</th>
<th>Public interest contacts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>Yes</td>
<td>Diff.</td>
</tr>
<tr>
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<td>0.2</td>
<td>4.2</td>
<td>4.0</td>
</tr>
<tr>
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<td>13</td>
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<td>6.2</td>
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<tr>
<td>4</td>
<td>24</td>
<td>18.9</td>
<td>-5.1</td>
</tr>
<tr>
<td>5</td>
<td>14.1</td>
<td>15.7</td>
<td>1.6</td>
</tr>
<tr>
<td>6</td>
<td>21.2</td>
<td>19</td>
<td>-2.2</td>
</tr>
<tr>
<td>very little</td>
<td>24.2</td>
<td>17</td>
<td>-7.2</td>
</tr>
<tr>
<td>Sum above midpoint</td>
<td>16.4</td>
<td>29.3</td>
<td>12.9</td>
</tr>
</tbody>
</table>

*Note: Cell entries are percentages of MPs' responses to the question, 'How much do you take the opinion of lobbyists into account when making political decisions?' Source: 1996 European Members of Parliament Study.*
The findings strongly support the proposition that business contacts are more influential than those with other groups, given the same frequency of contact. Asked how much, on a scale from one ('very much') to seven ('very little') they take the opinion of lobbyists into account when making political decisions, 29.3 percent of MPs contacted by business indicated taking the opinion of lobbyists into account when making political decisions. This figure reduces to 24.2 percent for MPs' contacts with trade unions, and 22.4 percent for public interest groups. Moreover, MPs revealed strong increases in influence attributed to lobbyists when they had frequent contact with business. For example, the proportion of MPs ascribing 'very much' influence to lobbyists is 0.2 for those who have business contact less than once a month, but it increases to four percent for those contacted by business at least once a month.

Firstly, we note an upward shift in the modal category for business contacts, but less so for other groups. Next, it is useful to draw comparisons between, on the one hand, the increase of ascribed lobbyist influence associated with frequent business contact and, on the other hand, the decrease in percentages of those who ascribe little influence to lobbyists associated with the same frequency of business contact. To facilitate this comparison, cell entries for ascribed lobbyist influence are divided up into two panels, separated by the scalar midpoint of four, which denotes neither much nor little influence. Looking at all MPs who ascribed lobbyist influence above the scalar midpoint (the dark-shaded area in Table 6.13), the proportion of those ascribing influence to lobbyists rises from 16.4 percent for those with less-than monthly business contact to 29.3 for those contacted by business at least once a month. This represents a proportion increase associated with monthly or more frequent business contact of 12.9 percent, as indicated by the figure in bold print in the bottom row. By contrast the increase in lobbyist influence associated with trade union contact is only five percent, while that for public interest groups reduces to a mere 1.3 percentage points. We can say, therefore, that equal frequencies of contact to policymakers are associated with notably unequal degrees of influence of lobbyists over public policymaking, depending on whether the contacting lobbyist is business or some non-business group. Looking at the rows below the scalar midpoint (the light-shaded area), we find the matching obverse pattern: frequent business contact is associated with a reduction by 7.8 percent of the percentage of parliamentarians who ascribe little influence to lobbyists. By contrast, frequent contact with trade unions reduces the percentage of parliamentarians who ascribe little influence to
lobbyists by only 5.2 percent. For public interest groups, this reduction decreases further to a mere 1.6 percent.

This pattern is reproduced in Table 6.14, where the above comparisons are replicated, but this time using differences between weekly or more versus less frequent contact. Again, we note the difference in overall influence attributed to lobbyists by MPs with very frequent business, trade union, and public interest group contact, respectively. 34.3 percent of MPs contacted by business admitted to taking the opinion of lobbyists into account when making political decisions. The percentage reduces to 23.1 percent for MPs' contacts with trade unions. Surprisingly, however, it is higher, again, for public interest groups (32.9 percent). A similar picture obtains when we compare the increases in influence due to group contact, compared to no group contact. Weekly or more frequent business contact boosts lobbyist influence by 13.9 percent, compared to 1.8 percent for trade union contacts and 11.8 percent for public interest groups. Overall, these findings support the propositions derived from the informational model of business lobbying. It is, furthermore, interesting to note how the differences between no lobbying versus monthly contact on one hand, and between no lobbying versus weekly contact on another, are roughly the same for business: both monthly and weekly contact exert a rather large effect on the influence of lobbyists over public policymaking. Likewise, the effect of trade union contacts is the same for monthly and weekly contacts – both are rather small. By contrast, the relationship between weekly and monthly contact is less consistent for public interest groups. Public interest groups’ monthly and more contacts hardly make any difference for the influence ascribed to lobbyists (Table 6.13). However, unlike trade unions, public interest groups can mimic business’ influence if they have very frequent, i.e., weekly or more, contact with MPs. Business, by contrast, can achieve the same leverage by contacting less frequently, as indicated by the effect of monthly business contact on lobbyists influence.
<table>
<thead>
<tr>
<th>Influence of Lobbyists</th>
<th>Business contacts</th>
<th>Union contacts</th>
<th>Public interest contacts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>Yes</td>
<td>Diff.</td>
</tr>
<tr>
<td>very much</td>
<td>1.3</td>
<td>7.4</td>
<td>6.1</td>
</tr>
<tr>
<td>2</td>
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<td>15.3</td>
<td>16.8</td>
<td>1.5</td>
</tr>
<tr>
<td>4</td>
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<td>21.9</td>
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</tr>
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<td>5</td>
<td>14.9</td>
<td>12.9</td>
<td>-2</td>
</tr>
<tr>
<td>6</td>
<td>20.6</td>
<td>17.3</td>
<td>-3.3</td>
</tr>
<tr>
<td>very little</td>
<td>22.1</td>
<td>13.6</td>
<td>-8.5</td>
</tr>
<tr>
<td>Sum above midpoint</td>
<td>20.4</td>
<td>34.3</td>
<td>13.9</td>
</tr>
</tbody>
</table>

*Note:* Cell entries are percentages of MPs' responses to the question, "How much do you take the opinion of lobbyists into account when making political decisions?" *Data source:* 1996 European Members of Parliament Study.
Following the logic expressed in the previous section that left-leaning or environmentalist policymakers may be more prone to follow their ideological predisposition, mistrust business messages, and override lobbyists' messages, the readiness of parliamentarians to take lobbyists' opinions on board should also differ according to their ideological and partisan identity. To allow for that possibility, I replicated the analyses in Tables 6.13 and 6.14 separately for left-leaning, right-leaning, and pro-business MPs. The overall pattern remains largely unchanged. The percentage sums for respondents granting some to very much influence to lobbyists increase marginally for Leftwing MPs (30.1 percent), remain the same (29.3) for right-leaning MPs, and even drop slightly for pro-business MPs (26.8). While this suggests that MPs' sensitivity to the arguments of business lobbyist is largely independent from their partisan attachment and ideological identification, more pronounced changes can be observed when looking at very frequent business contact. Here, ascribed business lobbyist influence drops from 34.3 for all MPs to 28.6 percent for leftwing parliamentarians, while it rises for right-leaning MPs (36.9 percent) and even more for pro-business MPs (39.4). While the patterns of sensitivity to business, labour union, and public interest group lobbying do not differ very much between partisan and ideological subsets of MPs, the differences in the clout of very frequent business contacts support the notion expressed in the previous section that business lobbying of business-friendly politicians tends to fall on more fertile ground.

In the real world of lobbying, policymakers are often simultaneously targeted by numerous different lobbyists (Heclo 1978, Heinz et al. 1993). Often, the different lobbyists will represent interests that oppose one another in the context of a particular policy struggle. For instance, policymakers considering an environmental protection measure will often be subject to lobbying both by the environmental groups in favour of the policy, and by opposing interests, often from the world of industry, that engage in countervailing lobbying (Austen-Smith and Wright 1992a, Austen-Smith and Wright 1992b, Dahl 1961). Looking at the parliamentarians in the European Members of Parliament dataset, we find that 57.5 percent of MPs who have monthly or more contact with business groups also report that same frequency of contact with Trade Unions. Of the same group of MPs, 40.5 percent report frequent contact with public interest groups. This overlap reduces, and contact patterns become more selective, if we look at very frequent contact. Of the MPs with weekly or more business contact, 30.5 percent report the same
frequency of trade union contact, while only 11.8 percent can claim to have equally frequent contact with public interest groups. Because of this co-variation of group contacts, it is possible that the isolated comparisons of the increases in lobby influence due to business versus other group contacts discussed above distort my estimates of the real extent to which business contact prompts policymakers to take lobbyists serious.

I can obtain a more reliable picture of the informational clout of business contact by assessing its effect on influence granted to lobbyists while controlling for the effects of other group contacts in a multivariate regression model. Like before, the dependent variable in this model is the degree of lobbyist influence on policymaking as indicated by MPs on a seven-point thermometer scale. Given the underlying dimension of social reality that is supposed to be expressed in thermometer scales of this kind, treating ordinal scales as interval scales does not pose a problem for data analysis (cf. Wang et al. 1999). However, the distribution has a negative skew and is strongly leptokurtic:

\[
\text{skewness} = \frac{\sum_{i=1}^{n} (X_i - \mu_X)^3}{N\sigma_X^3} = -0.29; \\
\text{kurtosis} = \frac{\sum_{i=1}^{n} (X_i - \mu_X)^4}{N\sigma_X^4} - 3 = 2.2.
\]

These distributional properties render the raw form of this variable problematic for use in ordinary least squares (OLS) regression analysis. I therefore use a quadratic transformation of this variable. With a skew of 0.20 and kurtosis of 1.81, the transformed scale comes closer to the desired distributional properties. The transformation does not impair my ability to obtain meaningful coefficient estimates, as the transformed scale of lobbyist influence is no more artificial a measure of influence than its untransformed
variant. The main interpretational difference between the two is that the transformed scale is stretched out to a range from one to 49, as opposed to the one-through-seven range of the untransformed measure.

Table 6.15 displays OLS regression results for alternative models of lobbyist influence. The dependent variable in all six models is the squared influence of lobbyists on MPs’ policymaking decisions. The first three models are bivariate equations estimating the effects of business, trade union, and public interest group contacts on lobbyist’s influence over policymaking one at a time. The results confirm what we have already learned from the previous bivariate analysis in Table 6.13, namely, that frequent business contacts make a noticeable difference for the extent to which lawmakers give weight to lobbyists’ opinions in their policymaking activities, while contacts with trade unions or public interest groups are far less relevant in this regard. This time, however, we are able to say something about the statistical significance we can attach to these estimates, as well as to the size of the effect of frequent interest group contact. Frequent business contact shifts the average influence attributed by MPs to lobbyists by about eight percent towards the ‘very much’ end of that scale, from 28.15 without business contact to 24.11 with business contact. By any standards, this is not a very large effect. On the untransformed scale of attributed lobbyist influence, it is equivalent to a shift from 5.3 upwards to 4.9. The coefficient is statistically significant at the five-percent level, as indicated by the t-ratio of 2.73. By contrast, the estimates for trade union and public interest group contact (models 2 and 3, respectively) are very small and fail to reach accepted levels of statistical significance. Moreover, the business model is the only of the three bivariate models that explains a noteworthy, if rather small, proportion of the variance of lobbyist influence, as expressed in the R-square of .02.

As I mentioned above, legislators that are open to lobbyists from one area or interest group are also contacted more frequently by others. Therefore, combining the bivariate models into a single multivariate equation invites the risk that the estimates are affected by multicollinearity of the covariances of the independent variables. However, there are few signs of problems of multicollinearity and the overall pattern of the individual bivariate regression results extend robustly to the multivariate regression analysis in model 4. Again, the coefficient for business contacts is the only one that has a noteworthy and statistically significant effect on lobbyist influence. Adding trade union and
public interest group contacts to the equation does not help to increase the model's ex-
planatory capacity compared to what is explained by business alone, as R-square re-
mains at .02.
<table>
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</table>

*Significant at 5%; ** significant at 1%; ^Ten country dummies included in equation but not shown. The baseline country is Belgium.

Table 6.16 Determinants of lobbyist influence (very frequent group contacts)

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<th>(3)</th>
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<th>(6)$^*$</th>
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<td></td>
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<td>(1.30)</td>
<td>(1.31)</td>
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<tr>
<td>Constant</td>
<td>27.04</td>
<td>26.18</td>
<td>26.84</td>
<td>26.67</td>
<td>26.99</td>
<td>34.68</td>
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<td></td>
<td>(17.44)**</td>
<td>(18.39)**</td>
<td>(17.47)**</td>
<td>(18.42)**</td>
<td>(18.22)**</td>
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<tr>
<td>N</td>
<td>657</td>
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<tr>
<td>R-squared</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.03</td>
<td>0.04</td>
<td>0.13</td>
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</table>

*Significant at 5%; ** significant at 1%; $^*$Ten country dummies included in equation but not shown. The baseline country is Belgium.

It is possible that the policy communities and elite networks within which MPs operate also influence their policy decisions. At the most basic level, this would lead us to suspect that MPs base their decisions on the preferences of any interest groups of which they may be a member. If, as Miliband (1969) and Useem (1984) suggest, common upbringing and similarity in socialisation foster shared beliefs among members of political and economic elites, any past affiliation of MPs with business groups should boost the extent to which they consider lobbyists’ opinion in their policy decisions. By the same token, the influence granted to lobbyists should vary depending on whether or not an MP is, or has been, an entrepreneur, or ‘capitalist’ herself. In order to control for such network or elite effects, model five includes a dummy variable indicating if an MP is also a member of an organization representing the interest of business. Another variable indicates whether or not an MP had been a business employer prior to her first election to the parliament. Neither of these variables has a significant impact on the influence enjoyed by lobbyists, although having been an official in a business organisation comes close to reaching statistical significance at the five-percent level. Most importantly, for both frequencies of contact, business contacts retain their explanatory effect on lobbyist influence after we controlled for the effects of policy network variables.

The final column reports estimates for the full model including the policy network controls, as well as ten dummy variables capturing the institutional and structural effects that vary at the country level. These are, above all, the degree of integration of the politico-economic system of interest intermediation, i.e., the pluralism-corporatism contrast, but also aspects of the electoral and party system that may impact on the sensitivity of policymakers to lobbying, as well as any other, often historical, country-specific linkages between individual legislators, parties, and interest group organisations. Not surprisingly, the inclusion of the country dummies boosts the R-squared to .14. Crucially, the coefficients retain their magnitude and significance in the presence of a set of country dummies. Thus, we can infer with a reasonable degree of confidence that the effect of business contact on the willingness of policymakers to take lobbyists opinion into account when making political decisions is robust and not contingent on particular institutional contexts.

Table 6.16 displays OLS results for the same model specification, but uses very frequent contacts instead of frequent contact to assess the robustness of our previous estimates.
The results largely confirm what has become clear from Table 6.15. A remarkable difference emerges, however, between the effects of monthly and weekly contact. While monthly trade union contact has no effect on lobbyist influence, more intense weekly lobbying by unions does. However, rather than boosting lobbyist influence, intense lobbying by trade unions actually backfires, leading MPs to discard the information received by lobbyists, as is expressed in the positive coefficient for trade union contact.79 At the same time, business contacts retain their effects of boosting the influence of lobbyists, irrespective of whether they are monthly or weekly. In fact, weekly business lobbying even drives up the clout of lobbyists, increasing the effect of contact from an eight-percent shift due to monthly contact to a ten-percent shift when contact is weekly or more often. While very frequent trade union contacts exerted a depressing effect on the influence of lobbyists on political decisionmaking, this effect disappears when the institutional and contextual information contained in the country dummies are taken into account.80

6.4 Conclusions

In this chapter I have analysed some individual-level implications of the informational model of business political power. I found that leftwing or environmentalist MPs with political attachments and platforms in opposition to business interests are lobbied less frequently than their pro-business or right-leaning counterparts. Because untrue claims are more likely to be exposed when made to ‘anti-business’ parties as opposed to ‘pro-business’ parties, business will lobby left-leaning parties more cautiously. While the findings are only partly significant at conventional levels, this hypothesis has found some support in the data. The contrary expectation that left-wing members are lobbied more frequently than others, however, has not survived the tests. This implies that, when devising their lobbying strategies, business lobbyists already factor in the chances of the lobbying message achieving its desired outcome, effectively gearing their lobby-

79 This result is not due to the well-known ‘switching-of-signs’ problem associated with multicollinearity: the directions of the effects are the same in the bivariate models 1 through 3.
80 Alternative specifications included dummy variables for left, right, and pro-business MPs, as well as interaction terms of (very) frequent business contact with those three dummies, respectively. None of the dummies and multiplicative terms proved significant or led to any noteworthy change in the parameters and standard errors of the other variables.
ing strategy towards both its effects on short-term policy outcomes as well as on the lobbyist’s long-term reputational interests.

Furthermore, the results from the analysis in section 6.2 call into question a major implication of the classic theory of business’ structural power. According to the logic of structural dependence theories, the incentives that constrain policymakers to maintain business confidence apply equally to all policymakers left, right and centre (Mitchell 1997, 67), in practice eliciting substantial convergence among governments of different partisanship (Dryzek 1996, 79). This, in turn, implies that business has no reason to lobby any one type of policymaker differently, or more frequently, or less so, than any other. In short, they should all be lobbied the same! However, the evidence presented here clearly indicates that this is not the case. Business lobbyists do discriminate between MPs according to the latter’s partisan attachments, left-right ideological position, or importance lent to environmental concerns. By contacting the more receptive right-leaning policymakers more frequently, business discriminates according to the likelihood of lobbying success and with a view to its reputation as a provider of good information. In the language of business structural power, if policymakers are likely to respond differentially to structural constraints depending on their ideological position and partisan identity, an incentive to efficient use of lobbying resources combined with the greater likelihood of ‘desired’ policy responses leads to more frequent lobbying of ‘pro-business’ parties. While the classic theory of business’ structural power demands identical and truthful lobbying of left and right-leaning parties alike, any risk that policymakers deviate from the equilibrium response of acceding to business preferences leads business to lobby more selectively. The risk of policymakers’ ‘disobedience’ is explicitly contained in the informational model of business lobbying. The empirical results reported here illustrate these implications of policymakers’ off-equilibrium behaviour and the responses from business.

These findings are to be viewed with caution. While the frequency of lobbying is skewed towards right-wing MPs, it is possible that the frequency of truthful lobbying is so skewed even more. In this sense, it could still be the case that, while right-wing policymakers are lobbied more frequently, MPs from business-friendly political backgrounds are lied to less frequently. It also has become clear in the above analyses that corporatism matters. However, it does not do so in a way that corresponds to past re-
search on corporatist patterns of policymaking. While my expectations concerning the relative frequency of lobbying are partially corroborated by the evidence, the patterns differ depending on whether we look at pluralist or corporatist systems. Under the assumption that frequency of contact serves as a good indicator for frequency of misrepresentations, business lobbyists would appear to feel less constrained to lobby (and misrepresent) in pluralist systems, while their good name puts a higher constraint on their behaviour in corporatist systems. This is supported by the fact that, across the board, levels of frequent and very frequent contact are somewhat higher in pluralist contexts. In this sense, then, corporatist structures can be seen as creating incentives that force business to share its private information about policy costs truthfully with policymakers.

Turning to the analysis of the relative ascribed influence of business versus other group contacts, the evidence presented in section 6.3 suggests overwhelmingly that frequent contacts with business representatives lead policymakers to be sensitive to lobbying. By contrast, equally frequent contact by trade unions or public interest groups does not lead to an increased receptiveness to information conveyed by lobbying. Thus, the messages of business carry more clout than those emitted by non-business interest groups, even if all groups lobbied at the same level of frequency. I therefore conclude that the information rationale for business lobbying, and the relative structural informational advantage drawn there from by business, is an important factor in any explanation of business political power. Summing up, while the informational model of business structural power is only weakly supported by the relative frequencies with which businesses lobby different types of policymakers, the model has received support from an analysis of the extent to which business contact impacts on the influence of lobbyists over policymaking. With the micro-level observable implications of the informational model of business political power partly confirmed, I now proceed to testing the model against aggregate data at the macro-political level.
7 Macro-quantitative Evidence: Business' Control over Knowledge Production, Economic Voting, and Environmental Regulation

7.1 Introduction

The previous chapter presented individual-level evidence in support of some behavioural implications of the informational model of business political power. However, for the model to claim empirical relevance and verisimilitude, it must also be tested against macro-level data. If the structural-informational model provides an explanation of business political power, we expect, for example, concessions by policymakers to business interests to be more likely in contexts where the economic evaluation of policymakers by citizens is a strong predictor of electoral outcomes — the phenomenon of 'economic voting'. This implication derives directly from the standard claim of business structural power: that policymakers in democratic capitalist societies depend on business' cooperation for a healthy and expanding economy, which is thought of as boosting their popularity and re-election prospects. A positive finding in this respect would constitute evidence in support of, both, the classic theories of the structural dependence of the state on capital, and the informational model of business political power developed in this study. In the informational-structural model, the damage through economic voting that can be incurred by policymakers for picking a business-unfriendly policy features as the size of negative inducement effects ($w$). Economic voting is a core ingredient to both the theory of the structural dependence of the state on capital and the informational model of business political power.

With respect to the informational model, we expect to see the frequency of concessions to business increase with policymakers’ dependence on business for data and expertise relevant for assessing the economic and electoral costs of the policy. This effect should be discernible in addition to, as well as interactively with, any constraining effect of economic voting. While the information variable and the structural constraints transmitted through economic voting should each have independent effects on political outcomes, any informational advantage of business should reinforce the effect of economic voting, and vice versa. As far as the environment goes, more concessions to business
imply weaker environmental regulation, on average. Recall that, while the model of the structural dependence of the state on capital tells us if and when objective structural constraints circumscribe the policymaking capacity of elected decisionmakers, the informational model tells us if and when policymakers believe that these constraints apply. Variations in this informational dependence or asymmetry can be due to differences in the institutional capacities for efficient and independent policy-impact analysis. These can result from differences in the resource endowment and research capacity of public bodies and civil administration, and from how these relate to the knowledge resources available to, and used by, business. Variations may also have to do with the existence of institutions of some kind that entice business to provide policymakers with truthful and reliable information. Incentives to report truthfully on their assessment of the costs of policy can be expected to be higher for business lobbyists in corporatist systems of interest intermediation, where close and institutionalised bargaining structures exist between governments and the major sectoral interest groups.

Policymakers are not naïve. Nor are they unaware of the various structural constraints that circumscribe their capacity to do what they would like to do, or what they promised in their election campaign they would do once in power. When devising election platforms, policy pledges, and other promises to which electors may hold them accountable, candidates and parties already factor in some of the constraints, difficulties and resistances they expect to face. The imperative not to make promises that one is later unable to honour is of great importance for elected officials. It follows that the same forces that constrain the fulfilment of policy pledges also exert constraining effects on the very formulation of those pledges. Thus, while I expect the structural and informational constraints on policymaking to affect the way in which pledges and platforms translate into policy, I also expect the pledges themselves to be correlated with these constraints. These causal relationships can be summarised simultaneously in an integrated model of the structural and informational determinant of environmental regulation. At a given level of salience of environmental issues, policymakers are expected to enact stricter provisions for environmental protection in countries in which economic voting is weak, and vice versa. Policymakers are, furthermore, expected to compromise their policy goals more often in situations where business enjoys a considerable informational lead. Policymakers anticipate the difficulties associated with environmental regulation when devising their policy pledges.
In the following section I discuss the determinants of environmental regulation that have been identified in past comparative research on environmental policymaking (7.2). I then formulate an econometric model of the causal relationships between economic voting, the importance of business for the funding of national research and third-level education, the level of environmental policy pledges, and the strength of environmental regulatory regimes, including a number of control variables (7.3). Because the relationship between environmental issue salience and actual environmental policy is one of mutual causation, I specify a simultaneous equation model to gauge the causal relationships between economic voting, information asymmetry, environmental issue salience, and environmental regime strength. Section (7.4) discusses the data sources and measurement of the variables in the model for thirty-one countries. After a brief discussion of the estimation technique, the results are presented in section (7.5). I conclude this chapter with a discussion of the findings and their implication for the theory of informational business power (7.6).

7.2 Determinants of environmental regime strength

7.2.1 Policy pledges and environmental issue salience
Politicians may not be famous for delivering each and every one of the promises they make in election campaigns. Nevertheless, numerous studies have highlighted the extent to which the publicised policy positions of parties determine the policy output of the governments to which they belong (see e.g. Castles 1982, Keman 1988, Schmidt 1996, Thompson 1999). For various reasons that I outlined above in Chapter 4, parties’ policy pledges are a principal predictor of political outcomes. Foremost of these is the fact that politicians risk electoral punishment if the discrepancies between what they said they were going to do and what they really do are too wide. Thus, the first variable in a model explaining the stringency of environmental regimes is the extent to which politicians prioritise the environment in their election campaign manifestos. This requires the inclusion in the model of a measure of environmental policy pledges.

Assuming that the policy pledges of parties and candidates are not entirely unrelated to preference distributions in the electorate, the relative weight of environmental policy pledges across countries also reveals information about the salience of environmental
issues among the electorate in the country. This is not to say that public agendas are more or less linear reflections of public preferences. Numerous studies suggest that candidates, party leaders and policymakers do not merely articulate public preferences and issues saliencies, but actively engage in defining and shaping these preferences (Aldrich 1995, Dunleavy 1991). At the same time, however, parties aim to respond to voter preferences in their election manifestos, even if they also aim to manipulate those preferences. Thus, I assume that the relative salience of environmental issues in a cross-country perspective is reflected in the frequency of environmental policy pledges relative to other political issues.

7.2.2 Economic voting

At a given level of salience of environmental policy, policymakers will enact more or stricter provisions for environmental protection if the structural constraints on their policymaking capacities are low. This is the case, for example, if environmental policy measures imply no or only very low costs for business, if businesses have no difficulties absorbing these costs, or if deteriorated operational environments for business and investment have no knock-on effects via voters’ evaluations of incumbent policymakers. Thus, if the structural dependence of the state on capital is a factor in environmental politics, I expect, ceteris paribus, a reduced stringency of environmental regulation in situations where policymakers expect the negative electoral implications of economic costs to weigh heavily. Policymakers are assumed to base their assessment of the relative costs associated with regulatory outcomes on the strength of economically motivated voting behaviour – the phenomenon of economic voting. Where the threat of economically induced electoral punishment is big, policymakers will be more hesitant in their regulatory behaviour regarding the environment. Thus, if structural state dependence exists, we expect to observe a stricter (weaker) environmental regulatory regime in countries where economic determinants of the vote are weak (strong) predictors of electoral outcomes. In other words, applied to environmental politics, the structural dependence thesis holds that, at equal levels of environmental saliency, environmental regulation will decrease in proportion to the strength of voters’ economic evaluations as a predictor of electoral outcomes.

Research on the economic determinants of electoral outcomes has found consistently that vote volatility due to economic voting varies considerably across countries (Lewis-
Beck 1988, Norpoth et al. 1991, Nannestad and Paldam 1994, Dorussen and Palmer 2002). Two aspects of political context – the institutional clarity of responsibility and the factual availability of alternatives – are usually called upon to explain this variation. The first of these is rather clear-cut: voters can only punish incumbent political decisionmakers for bad performance if the institutional design of the political system enables them to identify which politician, office or party is to blame for their predicament. Without clarity of responsibility, in terms of which parties are responsible for macroeconomic policy and performance, any correlation between party support patterns and the economy should be weak (Powell and Whitten 1993). As a rule of thumb, first-past-the-post electoral systems with their concomitant two-party systems and single-party governments provide fairly straightforward avenues for blame assignment. By contrast, political systems characterized by coalition cabinets formed in multiparty systems, complex multiple and overlapping levels of responsibility at the regional, national and supranational level witnessed, for example, in federal systems or in the political system of the European Union typically imply less clear-cut responsibilities. Likewise, divided government in presidential or semipresidential systems such as the United States or France will undermine citizens’ ability to connect parties or politicians to outcomes. In these systems it is more difficult for electors to identify who to blame, while it is easier for policymakers to deflect the blame for, say, bad macroeconomic management, and instead cast it on others. Secondly, for blame assignment to translate into electoral punishment voters require the presence of a credible opposition that can to some extent present itself as a more competent alternative to incumbents. If voters believe that the opposition fails to offer a credible alternative to the incumbent party, then, regardless of the political image of the incumbent, macroeconomic performance need not necessarily damage the policymaker (Sanders 2000, 277-278).

The precise mechanisms by which cross-national variations in economic voting are explained are not of substantive importance for the present study. For an assessment of the structural dependence of the state on capital with the aid of the effects of economic voting, all that is required is some variation in the levels of economic voting across countries. Future research, however, it will be worthwhile to explore in more depth to what extent these contextual variables actually imply enhanced or reduced political power of business. The highest levels of vote volatility associated with the economic vote are usually reported for Britain (Anderson 1995, Lewis-Beck 1988). Equally high
levels are sometimes reported for US presidential elections, but not for the congressional US elections used in the present study, where economic voting is usually quite low (Alesina and Rosenthal 1995, Keech 1995). Countries like Canada, Germany, and the Netherlands, usually rank somewhere in the middle of the league tables of economic voting, while at the bottom we find the likes of Belgium and Mexico (see also Duch and Stevenson 2003). Controlling for factors such as wealth or the salience of environmental issues in a given country, I hypothesise that environmental regulation will be stricter in countries in which economic voting is weak, and vice versa.

Under normal circumstances, the political and social context of economic voting exhibits only minor changes over time, which explains the relative stability of country-specific vote and popularity functions (Lewis-Beck and Paldam 2000). However, with the possible exception of Switzerland, all countries occasionally experience economic and/or political crises. I have in mind here shocks to the political routine due to major regime change, military coups, civil and international war, and the like. Such crises are likely to upset the economic voter (Dorussen and Palmer 2002, 13). In relatively new democracies, for example, it may even take some time for the routine of economic voting to emerge. Thus, Fraile (2002) has shown how economic voting developed slowly in Spain after the transition to democracy. Following a profound institutional shock – the end of the Franco dictatorship – it took nearly two decades for the opposition to gain credibility. This was a necessary condition for the retrospective economic voter to emerge, and, by implication, for the mechanism of economic voting to exert tangible inducement effects on policymakers. Therefore, I expect economic voting to be weaker in countries that have recently undergone major economic or political crisis. Furthermore, in such circumstances, any economic voting that may take place is not expected to exert the hypothesised constraining effect on policymakers with respect to the choice and resolve of designing environmental policy. Thus, the model should include a variable that identifies the presence or absence of major political crisis during some time period leading up to the point of measurement of environmental regulatory strength.

7.2.3 Information asymmetry: Business control over knowledge production

The informational-structural model of business political power advanced in the present study postulates that business gains clout over policy outcomes not primarily because policymakers are structurally dependent on capital, but rather because business is able
to persuade policymakers that this dependence is actually relevant to a given policy issue, such as an environmental regulatory measure imposing costs on business. In this sense, business is powerful to the extent that access to pertinent information is asymmetrically biased in its favour. When this is the case, business knows more than the policymaker, or at least that it can make the policymaker believe that it knows more, and that this knowledge is directly relevant to the policymaker's ability of making the right decision. It follows that the stringency of environmental regulation is expected to decrease with the degree of information asymmetry in favour of business. At the aggregate level, this implies that policymakers compromise their policy goals more often to accommodate concerns raised by business in situations in which business commands a considerable share of society's knowledge resources. Social knowledge, in turn, is generated, produced and distributed in various institutions of teaching and learning. I expect, therefore, that environmental regulation will be weaker in countries in which a large share of resources for education and research is controlled by business and stronger in contexts in which more learning and researching takes place independently of business interests.

7.2.4 Models of democracy
Several studies have suggested that political-institutional distinctions, above all the dimension of consensus versus majoritarian democracy, are important for environmental policy outcomes (e.g., Scruggs 1999). Consensual modes of policymaking have been positively associated with the enhanced ability of policymakers to legislate, monitor, and enforce environmental regulations (ibid.). I therefore expect countries' environmental regime strength to increase with the consensual character of their political institutions.

7.2.5 Politico-economic integration
I already discussed the possibility that the extent to which business can exploit any existing informational advantages vis-à-vis the government varies with the country-specific type of interest group intermediation, as expressed in the dimension of corporatism versus pluralism. The argument is that well-maintained relationships between policymakers and business increase the reputational costs for business that result from false representations, thereby inducing business to be more truthful when lobbying. Varying degrees of politico-economic integration have also been identified in previous studies as
affecting environmental policy outcomes. Research on the effects of government, industrial and labour market institutions suggests that the handling of alleged or real trade-offs between economic performance and the environment varies across countries according to their degree of institutional politico-economic integration (Jänicke 1992, 53-54; Crepaz 1995; Scruggs 1999; Vogel 1986. Crepaz (1995) for example, found evidence that the success of environmental policies is causally connected to consensual and accommodative systems of interest representation. Thus, in addition to the substantive importance of a variable measuring a country’s position on a scale of corporatism-pluralism as a proxy for the informational leverage of business, the model should control for the effects of country-specific characteristics of collective bargaining institutions and degrees of corporatism.

7.2.6 Economic development
No model of environmental policy would be complete without taking into account economic development. Previous studies have found consistently that economic variables account for cross-country variations in various policy areas, including environmental regulation (Enloe 1975; Jänicke et al. 1989; Jänicke, Mönch and Binder 1993). The causal nature of the link between economic development and environmental regulation is, however, far from straightforward (Jänicke 1992, 53). Even for those dimensions of environmental policy where growth seems to have been associated with improving conditions, there is no reason to believe that the process has been automatic (Grossman 1993). Discussions of the processes whereby wealth and economic development influence environmental politics usually distinguish three causal mechanisms – two direct effects and one indirect mechanism. The most common explanation operates via the logic that economic development of the kind set off by the industrial revolution goes hand in hand with creating a range of environmental problems, thereby creating demand for abatement and remedies of some form or another. This is the first direct effect of economic development on environmental regulation. The second direct mechanism connecting economic development to environmental protection is also very straightforward, suggesting that wealth and technology acquired and generated through development provide a country with the resources necessary to devise effective and expensive public programs.
The indirect mechanism connecting development to environmental regulation is often accounted for in the terms of cultural-ideational change and processes of reflexive modernisation. In this view, the security of material existence and welfare generated by economic development lead to a gradual amendment and replacement of materialist value orientations with postmaterialist ideas among citizens. Post-materialist value orientations are concerned with quality-of-life issues, which in turn have a healthy environment at the core of their value system (cf. Inglehart 1990, 1997). As postmaterialist value orientations spread, they generate an expanded set of demands on policymakers in the developed countries – demands to which policymakers respond. Grossman (1993) suggests that the strongest link between income and pollution is via this induced policy response: as nations or regions experience increased economic prosperity, citizens demand of their governments that greater attention be paid to the natural habitat.

Whichever theory one subscribes to – and there is no reason why these explanations should be in any way mutually incompatible – wealth and economic development matter and indicators of wealth or industrial development have consistently been found to affect environmental regulation a great deal (Crepaz 1995). Public policy is responsive to demand, and, as Ringquist put it with respect to US states, ‘a state will not stringently regulate the noxious by-products of an industrialized economy if it has a low level of industrialization in the first place’ (Ringquist 1993, 324). Similarly, regulation costs money, so the wealth of a country can affect the type and stringency of regulations it adopts and the resources available to regulators in that country.

7.2.7 Economic freedom
The strength of national environmental regimes is likely to be influenced, finally, by the wider legal and constitutional privileges enjoyed by business vis-à-vis the state. Policymakers in countries in which the regulatory environment reflects an assumption in favour of business privilege will, on average, be less inclined to challenge that position. Moreover, the expanse of legal privileges enjoyed by business is indicative of business informational privileges. Throughout the advanced industrialised countries, the rights that protect the privacy of firms against public interference entail strong protection of firms' informational privacy. Numerous indicators exist that evaluate countries according to the economic freedom granted to their business community by the state. These include protection of businesses against encroachment by government bodies, as well as
their protection against trade unions and other non-business interests. Last but not least, the wider economic freedoms enjoyed by business comprise the right of businesses to privacy from the state with respect to crucial information about operations, costs, prices and markets. Empirically, these freedoms will be related to freedom of trade, as well as to national economies' openness to international trade. An indicator for economic openness in a model of environmental regulatory strength, however, would provide a measure for testing the effect of trade on environmental politics. This is a related, yet distinct, question that has extensively been dealt with elsewhere (see e.g. van Beers and van de Bergh 1996). It would not, however, shed light on the effect of domestic economic freedoms enjoyed by capitalists on government's policymaking capacity. Thus, I will include in the model a measure of economic freedom and expect this variable to exert negative effects on environmental regulatory strength.

In the interest of parsimony, other variables commonly included in macro-level models of political outputs (e.g. Scruggs 1999), such as, government partisanship, Green party vote, or the spread of post-materialist value orientations among the populace, will not be included in the model. As I will argue in more detail in the context of data and variable measurement, the relative frequency of environmental policy pledges serves as an indicator for country-specific environmental issue salience that is superior to Green party vote or post-materialist value orientations. At the country-level, congruence between the policy pledges of all important parties, whether in government or not, is correlated to political outcomes (Laver and Budge 1992).

7.3 A structural model of the informational power of business
According to the classic theory of business' structural power, at a given level of salience of environmental issues, policymakers are expected to enact stricter provisions for environmental protection in countries in which economic voting is weak, and vice versa. Controlling for other factors such as the level of economic development, a positive finding in this respect would constitute evidence in support not only of the classic theories of the structural dependence of the state on capital, but also of the informational model of business political power developed in this study. The informational model of business power implies an independent explanatory role of the information variable, in addition to the structural constraints expressed through economic voting. Thus, while a
significant negative effect of economic voting on environmental regime stringency would lend support to the classic structural power theory, this effect is also integral to the information model of business political power. The informational model of business political power, by contrast, receives further support if a variable measuring information asymmetry in favour of business also exerts significant effects on environmental regulatory strength.

In a multivariate regression model, the informational constraint, business’ control over knowledge production, is expected to affect not only on the translation of environmental pledges into policy, but also on the formulation of environmental policy pledges themselves, and thereby on the political agenda. Because policymakers anticipate to some extent the difficulties associated with environmental regulation when devising their policy pledges, any informational and economic privilege of business will constrain both what policymakers deem to be feasible when committing to certain policies as well as what they deem expedient when the time comes to making good on those commitments. Economic development, as already alluded to, has been identified by scholars of environmental politics as exerting both direct and indirect effects on environmental policy via a variety of different routes, including the expansion of policy demands for enhanced environmental protection. All three modes of explanation have economic development at the beginning of the causal chain, and environmental regulation at the end. Thus, once some level of environmental protection has been accounted for by reference to the physical-functional effects and availability of adequate resources, the indirect effect through postmaterialist value orientations will have little left to explain over and above this level at a given point in time. Any indirect effect there is eventually feeds into and becomes sedimented in the actual regulatory regime in place, so that the scope for explanatory capacity of the cultural-ideational effect of economic development of environmental regulation reduces further. For the purpose of the present analysis, I therefore assume a direct causal relation between economic development and environmental regulatory strength as well as an indirect one via environmental issue salience. For these reasons, I will include economic development as a predictor of environmental regulation as well as of environmental policy pledges.

Economic freedom is hypothesised to affect primarily the formulation of environmental pledges. The reason for this specification is that this measure is indicative above all of
the degree to which a country is characterised by a specifically business-friendly atmosphere, thereby constraining the extent to which policymakers conceive it possible to challenge business with environmental measures. Finally, the degree of politico-economic system integration, conceived as a continuum from pluralism to corporatism, is assumed to be relevant for the translation of policy pledges into action, more so than the formulation of policy pledges or even the salience of the environment as a political issue. The full, integrated model of the informational-structural determinants of regulatory strength is summarised in the following system of equations, and depicted graphically in Figure 7.1.

\[
\begin{align*}
\text{Environmental Regime Stringency} & = a_0 \\
& + a_1 \text{Environmental Policy Pledges} \\
& + a_2 \text{Economic Development} \\
& + a_3 \text{Information Asymmetry} \\
& + a_4 \text{Political Institutions} \\
& + a_5 \text{Corporatism} \\
& + e_1; \\
\text{Environmental Policy Pledges} & = b_0 \\
& + b_1 \text{Economic Development} \\
& + b_2 \text{Information Asymmetry} \\
& + b_3 \text{Economic Voting} \\
& + b_4 (\text{Econ. Voting}) \times (\text{Information Asymm.}) \\
& + b_5 \text{Political Crisis} \\
& + b_6 \text{Economic Freedom} \\
& + e_2,
\end{align*}
\]

where \(e_1\) and \(e_2\) are randomly distributed error terms. The endogenous dependent variable is highlighted in bold print.
Figure 7.1 A Causal Model of the Informational-Structural Determinants of Environmental Regime Strength
7.4 Data and Measurement

Few of the variables in the informational-structural model of business power over environmental regulation will be readily observed in the empirical world. Measurement of many of the variables will therefore be difficult. However, numerous indicators can be identified to serve as useful proxies for the variables in the model across 31 countries. In the following paragraphs, I describe how each of the variables is measured and where the indicators used are taken from. A more detailed list of the sources, measurement and coding of each variable is contained in Appendix II.

7.4.1 Regulatory strength: Environmental regime stringency

Appropriate measures of policy output as a dependent variable for econometric analysis are a continuing source of controversy in the comparative literature on public policy and environmental politics. One commonly used representation of policy output is expenditure figures for various policy areas or programmes (Klingemann, Hofferbert and Budge 1994). Data on pollution abatement and control expenditures as a percentage of GDP are available for OECD countries on an annual basis since 1981 (OECD 1990, 1993b). In the present analysis, however, it is the intensity or strictness of regulations that is of crucial importance for both the effectiveness of the policy and the interests of business and other actors affected through the cost implications of the policy. This aspect of environmental regulatory regimes, however, cannot be adequately captured using expenditure figures. Neither can these programmes be evaluated simply by looking at the presence or absence of legislation (Ringquist 1993, 326).

Some scholars have suggested conceptualising policy output as significant environmental improvement, arguing that this is the ultimate goal of international environmental cooperation. Widely used proxies in comparative environmental policy research exist with indicators of environmental outcomes such as physical pollution levels, and indicators of pollution abatement and control expenditures (Crepaz 1995; Damania, Fredriksson and List 2003, Scruggs 1999). While pollution levels do not provide valid indicators for the strength of environmental regulation, inferences could be drawn from the level of environmental outcomes to government environmental policy when other variables affecting environmental performance are held constant. Various environmental performance indicators are available for a large and increasing number of countries.
These include indices collated by the European Environment Agency (2001) or the OECD (1998; for an overview see Smeets and Weterings 1999). Data availability for the same years and countries is also very good with respect to the country-by-country annual measurements of environmental outcomes (OECD 1993a).

The state of the environment expressed in these indicators, however, may not be a good indicator for the extent to which policymakers follow through with environmental regulation that may be perceived as burdensome by business. Fortunately, a more direct measure of environmental regulatory strength is available for the countries under study. The ‘Stringency of Environmental Regulations’ index taken from an annual survey of business and government leaders for the Global Competitiveness Report 2001-2002 (World Economic Forum 2002) measures environmental regime stringency as it is perceived by business elites in the countries under study. This survey, which is jointly undertaken by the World Economic Forum (WEF), the Center for International Development, and the Institute for Strategy and Competitiveness, both at Harvard University, builds on questionnaire responses from more than 4,600 business, government, and non-governmental organization leaders in 75 countries (World Economic Forum 2002, 17, 97). From this survey, I use an item asking respondents to rate the overall stringency of the environmental regime in their country on a seven-point thermometer scale. The question’s wording is: ‘The stringency of overall environmental regulation in your country is (1 = lax compared to most other countries, 7 = among the world’s most stringent).’ For the 31 countries in the present analysis, the resulting scale of stringency of environmental regulations ranges from 3.57 in Mexico to 6.73 in the Netherlands. Figure 7.2 shows the stringency of environmental regulations for all countries in the dataset.

A measure of environmental regulatory strength that is based on the perceptions of political actors will inevitably reflect all the subjectivities, inaccuracies and instances of wishful – or fearful – thinking in the hearts and minds of the respondents. The Stringency of Environmental Regulations index has been commissioned, funded, and partially executed by the WEF. According to its own representations, this organisation is the foremost global community of business, political, intellectual and other leaders of society committed to improving the state of the world. The Forum is an
independent international organization incorporated as a Swiss not-for-profit foundation and has NGO consultative status with the Economic and Social Council of the United Nations.\textsuperscript{81}

The global peak organisation of the world's economic and political elites in the post-Keynesian era, the WEF has been known to favour strictly neoliberal, pro-capitalist ideologies and policies. Its more specific goals include, in the organisation's own words, the 'strengthening [of] the cross-border networks that promote private investment, entrepreneurship, and social progress around the world (World Economic Forum 2002, 7). Holding annual meetings in the elite seclusion of Davos, Switzerland, the WEF plays a leading role in promoting economic globalisation and the liberalisation of financial services. Indeed, it claims credit for the launching of the Uruguay round of GATT, which culminated in the World Trade Organisation (Balanyá et al., 148). According to Samuel Huntington, 'Davos people control virtually all international institutions, many of the world's governments and the bulk of the world's economic and military capabilities' (Huntington 1999).

Given the organisation's unambiguous ideological orientation, data generated on its behalf through surveying business elites may not be an unbiased measurement of environmental regulatory strength. In a sense, this lack of objectivity is desired, as I am interested in measuring the extent to which regulatory mandates come into existence that may be perceived as too strict by the regulated. For the informational model of business lobbying, it does not matter so much how strict a regulation really is, but rather how strict it is deemed by those businesses whose behaviour is regulated and who bare some of the costs of this regulation. In asking business and political elites in the different countries about their perception of the stringency of their domestic environmental regimes, a measure of precisely this perception is obtained. Moreover, because whatever bias this measure might have is likely to be consistent across all countries as well as unrelated with the other variables in the model, the coefficient estimates in the analysis that follows will remain unbiased in this regard.

In order to rule out that the reported perception of regime stringency is dominated by platitudes of anti-regulatory ideologies, I validate this variable against a composite interval measure from the same survey, which is based on respondents’ ratings of particular environmental regulations in their countries. Also employing seven-point thermometer scales, these items ask respondents to evaluate the stringency of their countries’ regulations of, respectively, air pollution, water pollution, toxic waste, and chemicals regulation. I reduced these four variables into a single composite interval measure of environmental regime stringency, using principle components factor analysis. Detailed documentation of the factor analysis is provided in Appendix II. This composite measure is very highly correlated with the overall rating undertaken by the survey respondents (Pearson’s $r=0.98$).
Figure 7.2 Environmental Regime Stringency in 30 countries (2001)

Previous studies on comparative environmental politics and on public policy more generally, have used a variety of different operationalisations to capture the salience of environmental issues in society. The most commonly encountered conceptualisations of environmental issue salience include the strength and proliferation of environmentalist groups (Scruggs 1999, 16), the electoral support for Green or left-libertarian parties (Scruggs 1999, 16), the ranking of environmental concerns in opinion polls, and the importance of environmental issues alongside other themes in the manifestos and election programs of political parties. Of these, opinion polls can be thought of as capturing the salience of the environment among the electorate in its purest form. By contrast, the extent to which the salience of the environment translates into eco-movement participation or finds its way into political party manifestos and programmes for government will be subject to various filter effects of intervening variables. Participation in and strength of environmental groups are influenced by country-specific characteristics of the interest group system, as well as by different historic experiences and traditions of popular mobilisation. The way in which citizens preferences are reflected in party manifesto and policy pledges will inevitably be influenced by political system factors, above all those relating to the party system. Furthermore, the path from voter-level issue salience to party and campaign pledges will be influenced by the informational and structural constraints dealt with in the present study. While this may at first glance appear to compromise the purity of a measure of issue salience, it actually captures a highly important factor in the present analysis. According to a well-known claim, interests are served by keeping topics off as well as on the agenda. In Schattschneider’s (1975, 40) words, the ‘dominant business interests resist appeals to the government.’ The reason for this is that elected policymakers would rarely make policy pledges in the first place that conflict with powerful interests (Crenson 1971, Lukes 1974). Compelling as his argument may be, it imports enormous methodological difficulties associated with the study of ‘non-issues’ and ‘non-decisionmaking’ (Bachrach and Baratz 1970).

In using policy pledges as an indicator of the electoral salience of the environment, I can overcome this problem methodologically. Any informational and structural constraints on the ability of policymakers to place certain policies on the agenda for decisionmaking will have exerted their effects by the time latent issues become actual pledges. Furthermore, instead of including a measure of environmental issue salience alongside a
separate one for policymakers' intentions to political action, environmental policy pledges combine the two in a way that maximises statistical efficiency and achieves a theoretically desirable operationalisation. For these reasons I measure environmental issue salience as policy priorities that are publicly endorsed by political parties in their election programmes. Priorities are defined as the frequencies with which the environment is mentioned in party and election manifestos, relative to other issues, such as the economy, welfare, foreign policy, or so-called 'social' issue dimensions pertaining to ethical and cultural themes such as birth control, recreational drugs use, religious freedoms, etc.\textsuperscript{82}

Data for the environmental salience scale is taken from the Manifesto Research Group (MRG). The central idea behind the MRG's estimation of policy priorities from party manifestos is that parties argue with each other by emphasising different policies, rather than by directly confronting each other on the same issues (Budge and Bara 2001, 6-7). Very few election manifestos directly negate words, phrases or sentences by other parties. Rather, most ideas about what to do regarding individual issues are shared by all parties. No party would really oppose cutting taxes, increasing welfare or protecting the environment. What is different, however, is the degree to which taxes or welfare are mentioned by the public documents of different parties (Budge and Bara 2001, 7). In the words of the researchers behind the MRG project, parties see no point in going counter to majority opinion on each issue. They therefore endorse the majority point of view but stress those issues on which they are more trusted to carry it out – tax-cutting for Conservatives and market Liberals, welfare extension for Socialists. Election programs therefore try to promote a party's 'proprietary' issues and priorities and downgrade other issues and priorities (Budge and Bara 2001, 7).

\textsuperscript{82} Measuring environmental issue salience as parties' policy priorities captures two dimensions at once that would otherwise have to be modelled as separate, yet probably rather highly correlated variables, thus creating problems of multicollinearity. The use of policy pledges as an indicator of the salience of the environment in electoral politics also maximises the degrees of freedom available for model estimation – not a trivial concern in an analysis where the units of analysis are entire countries and the number of cases is therefore restricted.
Even when not widely read, party election programs are adapted and launched with great publicity and picked up and amplified by the media (Budge and Bara 2001, 5). And if manifestos indicate anything at all, relative emphasis measures party priorities for government. Inferences to issue salience from the content of manifestos are possible applying the logic of content analysis as defined by Weber. According to Weber (1990, 9), content analysis is ‘a research method that uses a set of procedures to make valid inferences from text. These inferences are about the sender(s) of the message itself or the audience of the message.’ The MRG’s coding of environmental issue salience is done by counting the sentences and quasi-sentences of manifestos and declarations making reference to the environment and assigning them to one of 54 policy categories (Budge and Bara 2001, 4). The resulting salience score for environmental protection is simply the percentage of (quasi-) sentences that fall into this category.

Data are available for an extended time period covering most of the post-war period for 24 OECD countries and Israel within a unifying coding framework (Budge et al., 2001). Rather than registering specific promises for government, the environmental pledge variable is intended to measure the electoral salience of environmental issues across the different countries. Previous research into the relationship between election pledges and subsequent programs for government found that many parties were as likely to see their policy reflected in governmental programs if they were outside government as if they were inside (Laver and Budge 1992). Therefore, rather than using only the manifestos of parties that were in government during the period under consideration, I include the relative frequencies of environmental policy pledges of all parties that ran for election in the 1990s and that gained parliamentary seats at some point during the post-war period. Excluded are only those subsumed under ‘other parties’ in election statistics and parties for which no programmatic data are available. In aggregating the country scores, I weighted the input values at the party-level according to the importance of the party in its respective political system, measured by the party’s vote share at the general election to which the respective manifesto pertains.

The resulting average salience values for the decade by party are then further aggregated into a single value for each country – the unit of analysis in the present model. Because the measure for the dependent variable in my model – environmental regime stringency – is taken in 2001, I collapse environmental policy pledges for party and
election manifestos into a single temporal data point per country summarising manifestos for elections held during the 1990s. The rationale behind this is that it usually takes some time for pledges to be transformed – if at all – into policy, and that in modelling causal relationships we want to allow for some reasonable temporal relationship between cause and effect (Miller 1999). Figure 7.3 shows aggregated environmental issue salience scores for 23 of the 31 countries in the present analysis. There is quite some variation on this variable, with parties in some countries making hardly any mention of environmental concerns in their manifestos (e.g., Israel, 0.04), while other party systems, such as those in Germany or the Scandinavian countries, score very high on this variable, with Finland leading the table at 12.13.
Figure 7.3 Environmental issue salience in 23 countries (1990s)

Note: Data for Luxembourg, the Czech Republic, Slovenia, Hungary, Korea, Lithuania, Poland and Mexico are missing. Source: Manifesto Research Group (Budge et al., 2001).
7.4.3 Electoral impact of citizens’ economic evaluations: Measuring cross-national variation in economic voting

The comparative literature on economic voting has identified two main links in the causal chain from macroeconomic performance to election outcomes: (i) from the economy to voter perceptions, and (ii) from voter perceptions to the vote (Lewis-Beck and Paldam 2000, 114-115). For each link, a number of alternative conceptualisations have been put forward in the literature. Regarding the first link, the rational choice framework applied in this study would suggest that voters look at their own personal economy, rather than the economy of the nation, when deciding how to vote. This would imply using some measure of real disposable income to capture the economic determinants of vote choice. However, most empirical findings show that voters take their clues from the wider economy, rather than their pocket-book, and are, in the terminology of the field, sociotropic rather than egotropic, as was originally reported by Kiewiet and Kinder (1979). Following the implications of these previous studies, I model the economic impact on the vote as an evaluation of a more general, collective kind, e.g., by recording voter judgments regarding trends in general economic conditions.

With respect to the second link, rational voters would be prospective in their assessment of election candidates and how the latter would perform in office once elected. Again, however, most findings indicate the opposite, namely that measures of retrospective economic evaluation by citizens work better (Lewis-Beck and Paldam 2000, 114-115). Given the considerable difficulties associated with the ex ante evaluation of a party’s macroeconomic competence faced even by trained economists, not to mention ordinary citizens, it seems reasonable to assume that voters derive clues about the capabilities of politicians from observed, past performance of incumbents. Therefore, I use the retrospective economic evaluation by citizens as the independent variable in a model for the assessment of the size of the economic vote.

But just how do citizens obtain clues about past economic performance of politicians? Quoting the defeat of George Bush (senior) in the 1992 US presidential elections,

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83 More recently, however, the reverse result has consistently appeared in British as well as Danish data, causing a resurgence of the controversy surrounding the notion of pocket-book voting; see Lewis-Beck and Paldam 2000, for an overview.
Hetherington (1996) suggests that a media-distorted view of the economy, rather than the 'real' economy, characterises citizen's evaluations of governments' economic performance. At the same time, however, it is doubtful that voters conduct their own macroeconomic analyses independently of media reports. Duch and Stevenson (2003) measure the economic vote at the individual level in terms of subjective perceptions of economic performance. This rules out that their results are an artefact of what is defined as the 'real' economy. I follow their example and use subjective voter evaluations rather than objective levels or growth rates of GDP, as the independent variable in a simple model of economic voting.

Next, I have to define vote choice. Much of the comparative work on economic voting has traditionally collapsed more refined measurements of inter-party variation of the economic vote in an effort to compare estimates of economic voting across countries. By dichotomising vote choice into an incumbent-versus-opposition variable, cross-national variation in the extent of economic voting is hoped to be captured in the slope coefficients for economic evaluations. This strategy is employed, e.g., in the cross-national studies of Lewis-Beck (1988) and Anderson (2000). By contrast, suspecting that voters incorporate economic evaluations into their vote decisions in a much more nuanced fashion than the simple dichotomy strategy admits, Duch and Stevenson (2003) use multinomial logistic regression to determine the size of the economic vote for multi-party systems. The cross-national variation in economic voting shown in their analysis, however, is robust with respect to the choice between binomial or multinomial logistic estimators.\textsuperscript{84} Therefore, I will here employ the simpler, dichotomous measure by assigning 'incumbency' to those parties that were the governing party (or formed part of an incumbent coalition in multi-party systems) at the time of the respective election.

Unlike previous studies that estimate the magnitude of the economic vote relative to other factors weighing in on the typical vote decision – above all, party identification – I estimate the effect of economic evaluations on vote choice in isolation in a bivariate equation. Thus, all other determinants of the vote that are not about economic perceptions, and that would be included in a fully specified model, are assumed to be contained in the unexplained variance of vote choice. It is possible, however, that some

\textsuperscript{84} Personal communication with Raymond Duch.
elements of the voter utility function that are not about economic evaluations are none­
theless partially captured by the effect of economic perceptions on vote choice. For in­
stance, a voter with a classic materialist value orientation might weigh economic
evaluations more strongly in her overall utility function than a more post-materialisti­
cally inclined voter. Because I am interested in the overall sensitivity of voters to eco­
nomic perceptions as it is perceived by policymakers rather than in the precise impor­
tance of the economy on vote choice relative to the contribution of other factors, the
presence of spurious effects is not a problem. The cross-country differences in the size
of either the logit coefficient or the pseudo-$R^2$, therefore, are expected to serve well to
obtain cross-sectoral estimates of the extent to which economic evaluations influence
vote choice.\footnote{Some studies of economic voting have adopted simulation strategies to model the effect of economic
conditions, or perceptions of conditions, on the vote. In Lewis-Beck’s (1988) classic work he employs
two different simulation strategies. In one simulation he sets all observations to the sample mean and
then shifts respondents by one unit from neutral to discontent. This simulation results in rather substan­
tial economic voting effects ranging from a 16 percent change in support for the incumbent coalition in
Italy to a 54 percent change in the UK (Lewis-Beck 1988, 84). A second, and arguably more realistic,
simulation strategy moves 20 percent of the sample two units on Lewis-Beck’s five-point economic
evaluation scale and generates more modest, but still remarkable, economic voting effects between 1.2
percent in Italy and 5.2 percent in the UK.}

I use data on 26 elections in 24 countries from the Comparative Study of Electoral Sys­
tems (CSES) dataset to obtain maximum likelihood estimates of the effect on vote
choice of voters’ perceptions of how the economy changed over the last year. The de­
pendent variable in a bivariate equation is the dichotomised incumbent-versus-opposi­
tion vote choice measure. Information on the composition of governments was extracted
from Roberto Ortiz de Zárate’s European Governments dataset and Electionworld.org’s
as incumbent is provided in Appendix II. For the independent variable, voters were
asked, ‘Would you say that over the past twelve months, the state of the economy in
[country] has gotten better, stayed about the same or gotten worse?’
Because the dichotomous dependent variable of vote choice reflects an underlying qualitative variable, I assume a binomial probability distribution of the error term (Aldrich and Nelson 1984, 37). Accordingly, I employ a logistic curve specification of the maximum likelihood estimator (MLE), treating the simple bivariate relationship as a logistic probability unit – or logit – function. From the resulting outputs, I create two indices of the strength of economic voting, one based on the logit coefficient, the other on McFadden’s pseudo-$R^2$. The logit regression has the form,

$$
\text{Prob}(\text{Vote}_{\text{incumbent}}) = \frac{e^{\beta X}}{1 + e^{\beta X}}
$$

where $X$ is the voter’s evaluation of how the economy changed over the past twelve months. The logit coefficient $\beta$ is calculated by the MLE. This estimator maximises the log-likelihood function, which indicates how likely it is to obtain the observed values of the dependent variable given the observed values of $X$ and the coefficient $\beta$. The objective of the MLE technique is to find the coefficient $\beta$ that makes the log of the likelihood function ($ll$) as large as possible. The $\beta$ coefficient thus represents the extent to which variation in citizens perceptions of economic performance can explain the probability of observing a vote for the incumbent party or parties.

McFadden’s $R^2$ statistic, also referred to as the likelihood ratio index, measures the achieved gain in the log-likelihood due to the explanatory variable relative to the maximum possible achievable gain (Veall and Zimmermann 1996, 245-251). It is computed as,

$$
\text{McFadden} R^2 = \frac{(ll_M - ll_0)}{(ll_{MAX} - ll_0)}
$$

where $ll/M$ is the log-likelihood value of the model, $ll/\text{MAX}$ is the maximum possible likelihood (i.e., a perfect fit), and $ll/0$ is the log-likelihood value if $\beta$ is restricted to zero.
McFadden's $R^2$ is thus a scalar measure that varies between 0 and 1. Because it depends on the ratio of the beginning and ending log-likelihood functions, it is very difficult to achieve a high $R^2$ in logistic regression (Veall and Zimmermann 1996, 250). As a result, this measure will tend to be quite small compared to the $R^2$ from OLS regression.

The resulting economic voting scores are displayed in figure 7.4. The two measures of the strength of the economic vote are highly correlated (Pearson's $r=0.95$). As the logit coefficient measure displays slightly higher variation, I use this rather than the pseudo-$R^2$ as the measure of economic voting in the informational structural model of environmental regime stringency. For some countries, data on two successive national elections are available. This is the case for Mexico (1997 and 2000 presidential elections) and Spain (1996 and 2000 general elections). For these countries, separate estimates were obtained for each election and then averaged to obtain the country-unique economic voting score. For countries with important regional electoral cleavages, I first obtain separate estimates of the economic vote for each region. I subsequently combine these estimates into a single country score of economic voting by averaging the regional scores, weighted by regional population size. This procedure has been applied to Belgium 1999 (Flanders versus Wallonia), Canada 1997 (Quebec versus the Anglophone regions), Germany 1996 (East versus West), and Great Britain 1997 (Scotland versus England and Wales).

The resulting distribution of the economic vote across the 27 countries is largely in line with what both common sense and past cross-sectional research on economic voting would have led us to expect: the UK exhibits strong patterns of economic voting; Germany and the Netherlands are somewhat in the middle, while the Scandinavian countries are located in the bottom of the range, together with Japan and conflict-ridden Israel. Irrespective of the bivariate nature of the model used to estimate the economic voting strength, there is a certain risk that the single elections in the dataset fail to capture the real extent to which economic voting 'usually' characterizes policymakers' incentive structure in a given polity. Rather, due to all kinds of exogenous shocks and extraneous events, any single election may or may not constitute a stark exception to the 'normal' way politics works in a country. The German federal election of 2002 is often quoted as an example for the misleadingly exceptional character of single elections. In that election, the economic evaluations that are assumed to co-determine voting behav-
bour were largely suspended and the incumbent Social-Democratic government returned to office in the context of strong opposition among voters to the pending US and UK onslaught on Iraq. A similar suspension of economically motivated voting behaviour can be said to have occurred in the context of the 2004 US Presidential elections, where poor economic performance of the incumbent was overridden by widespread perceptions of terrorist threats combined with the ability of the Bush (junior) administration to promote themselves as the party best capable of fending off these threats. Thus, there is an implicit danger that my measure of economic voting generalizes results based on outlying elections.

Even in the absence of exogenous policy shocks to the economic voting routine, an estimate of the economic vote based on a single election in one country can only ever provide a snapshot in time of a structural feature that may itself vary temporally (Paldam 1991). If the size of the economic vote were strictly a function of institutional factors – clarity of responsibility, for example – we would not expect much dynamic variation in our estimates of the volatility of the economic vote. Yet some argue that there are dynamic variation, trends and period effects in levels of economic voting. Anderson (1995, 35), for example, suggests that the rising role of government in the economy has sharpened voters’ sensitivity to economic performance. Others, on the contrary, have argued that global economic convergence should reduce levels of economic voting (Alesina, Cohen and Roubini 1997; Alvarez, Nagler and Willette 2000).

In principle, these problems could be overcome by estimating the economic vote over an extended time period to ensure a reasonable sample of voter utility functions for each country (Duch and Stevenson 2003). However, in the present case, the advantage of the CSES dataset’s application of the same measures across a relatively large number of countries justifies its use despite the fact that for most countries only one election is covered. The implications of these qualifications for the validity of my measure of economic voting are partially alleviated by the fact that all elections from which the estimates are obtained took place within a relatively short time period of six years, stretching from 1996 (Australia, Czech Republic, Japan, New Zealand, Slovenia, and Spain) to 2002 (Portugal). While this close pack of elections may alleviate some of the problems associated with long-term structural change, such developments will not be the same for all countries. On the contrary, much will depend on the timing of development and de-
mocratic transition, which varies widely between the ‘old rich’ and industrialised coun-
tries, such as Germany or the US, and the newcomers including the new democratic
capitalist systems of Central and Eastern Europe and the former Soviet Union. The
more important point here is, however, that the picture of economic voting patterns in
the countries has been obtained at points in time that slightly preceded the sample point
for the dependent variable. The fact that averages over two successive major elections
were obtained for Mexico and Spain further alleviates the problem of temporal validity
slightly. Furthermore, the inclusion of a dummy variable for major political crisis will
help to isolate some of the disturbances to economic voting. Thus, I have sufficient rea-
son to treat the logit estimates of the economic vote for the CSES elections as a valid
and reasonably reliable indicator of the strength of economic voting in the respective
countries.
Figure 7.4 Economic voting in 24 countries (1996-2002)

Note: Data for Austria, Finland France Greece, Ireland, Italy and Luxembourg, are missing. Sources: Comparative Study of Electoral Systems (CSES); European Governments dataset; Electionworld.org: Elections around the world.
7.4.4 Business control over knowledge production: Education and research expenditure

The main independent variable for the informational model measures the extent to which public policymakers are dependent on business for the information required to assess the costs of environmental policy. No direct measurement of this variable exists or is easily obtained. However, various proxies are available that indicate the extent to which policymakers avail of independent informational resources. In the present context, an obvious choice would seem to be the amount of public expenditure on environmental research. However, such a measure would inevitably be very strongly correlated with the dependent variable. Short of measuring the same thing, the relationship between these two variables would amount to an uninteresting tautology: It would be little surprise to find that states that are strong on environmental policy are also strong on environmental research expenditure. Instead, I will look for indicators of the relative informational clout of business vis-à-vis the state by looking at spending patterns in the wider areas of third-level education and research and development. Specifically, I employ two alternative conceptualisations of the state’s informational dependence on business: The share of business funding as a percentage of overall national expenditure on research and development (R&D), and the share of private funding of third-level education. Data for the first operationalisations is taken from the OECD’s Main Science and Technology Indicators (OECD 2004), while the private share of third-level education is from the OECD (2003) report Education at a Glance: OECD Indicators 2003.

In order to obtain expenditure shares for the decade of the 1990s and to iron out any temporal volatility within each country, various time points for each measure have been averaged across the 1990s. For third-level education, the share of private sources has been averaged over 1995 and 2000, while the country averages for R&D expenditure are based on the years 1991, 1995, 1997 and 1999. The distribution of private third-level education finance over 25 of the 31 countries in the dataset is shown in figure 7.5. Figure 7.6 displays the distribution of business share in national R&D expenditure across 27 countries. The two measures are not very strongly correlated. Therefore, I will obtain two separate model estimates, using each measure of business’ informational resources alternatively.
Figure 7.5 Private share of national third-level education funding in 25 countries (1990s)

Note: Data for Switzerland, Slovenia, Hungary, Lithuania, Luxembourg and Poland are missing. Source: Education at a Glance: OECD Indicators 2003.
Figure 7.6 Business share of national R&D expenditure in 27 countries (1990s)

Note: Data for Slovenia and Lithuania are missing. Source: OECD’s Main Science and Technology Indicators (OECD 2004).
7.4.5 *Models of democracy*

Information on the majoritarian-consensus dimension of political institutions is taken from Lijphart (1999). I use the 1971-1996 values of Lijphart’s executive-parties dimension reported in column 3 of Appendix A in Lijphart 1999. For 24 of the countries, the majoritarian-consensus score is displayed in Figure 7.8, ranging from -1.39 for the UK to 1.87 for Switzerland.

7.4.6 *Corporatism*

The measure of corporatism employed here is Siaroff’s concept of politico-economic integration already introduced and used above in chapter six. As pointed out previously, this measure of corporatism captures the functional roles and behavioural patterns summarised by the ideal types of corporatism identified in the literature, but does not measure *favourable contexts*, such as the size or openness of a country, or the political role of social democracy (Siaroff 1999, 189). Because economic freedom and the policy ideas of political parties are modelled as separate variables in the present analysis, Siaroff’s concept of integration is particularly useful in the present context. Figure 7.9 shows scores on Siaroff’s index for the mid-1990s for twenty-four of our 31 countries. Scores range from 1.875 for Canada as the most pluralist system, to 4.625 for Sweden, which is the most integrated system.
Figure 7.7 Majoritarian-consensus scores for 24 countries (1971-1996)

Note: Data for the Czech Republic, Slovenia, Hungary, Korea, Lithuania, Mexico and Poland are missing.
Source: Lijphart 1999.
Figure 7.8 Corporatism scores for 24 countries (mid-1990s)

Note: Data for the Czech Republic, Slovenia, Hungary, Korea, Lithuania, Mexico and Poland are missing.
Source: Siaroff 1999.
7.4.7 Economic freedom

In accordance with the definition given in Chapter 4, capitalism can be conceived of as the freedom to control one’s private property through markets. This freedom varies from country to country with the extent and nature of legal property rights (cf. Esping-Andersen 1985). It is therefore possible to measure the degree to which a country is capitalist. Early attempts at operationalising ‘capitalisticness’ were undertaken by Brunk, Caldeira and Lewis-Beck (1987). These authors assumed that capitalism is more interfered with the more the state plays an active role in the economy, thereby exerting control over the country’s resources. Assuming that such activity will be reflected in the spending pattern of national governments, Brunk, Caldeira and Lewis-Beck simply used the inverse of government expenditure as a share of GDP as their proxy for a country’s capitalisticness.

There are several problems with using size of government as an indicator for the degree to which a country guarantees economic freedom. Surveying the literature on economic freedom and growth, Carlsson and Lundström (2001) are struck by the consistent inconsistencies of the findings. While several empirical studies conclude that large government size hampers growth (Barro 1991, Barro 1999, Knack and Keefer 1995, Gwartney et al. 1998), others find no significant effect of government size (Nelson and Singh 1998) or that the relation is non-robust (Sala-i-Martin 1997). While a certain minimum government size is most likely necessary for a good economic environment in the sense that it is necessary to protect the economic agents and their property, the effect on economic growth is plainly ambiguous for government consumption outside these core functions (Carlsson and Lundström 2001, 4).

Fortunately, more sophisticated operationalisations have been developed in the political economy literature. In recent years, academic research centres, think tanks, and political foundations have rated countries on various dimensions of the institutional privileges – or economic freedoms – of economic elites comprising of investors and entrepreneurs. Broadly speaking, the dimensions covered by these ratings are private property ownership, the existence of a free market and levels of government regulation over the economy. They typically serve as the basis for compiled cross-country rankings based upon a composite index of the ratings. Widely used examples include the Heritage Foundation’s Index of Economic Freedom (O’Driscoll, Holmes and Kirkpatrick 2001), Free-
dom House’s *World Survey of Economic Freedom* (Freedom House 1996), and the Fraser Institute’s *Economic Freedom of the World* index (Gwartney et al. 2001). While broadly similar in construction and coverage of countries, there are some notable differences in country assessments between these three scales. For instance, Singapore received only a ‘partly free’ economic freedom assessment from Freedom House for its control over trade unions, government domination in several economic areas, and not guaranteeing citizens the right to earn a living (Freedom House 1996, 15). By contrast, both the Fraser Institute and Heritage Foundation rated Singapore high in economic freedom for its low tax rate, low rate of government spending, and liberal foreign investment laws (O’Driscoll, Holmes and Kirkpatrick 2001; Gwartney et al. 2001).

Behind these divergences, we find systematic, conceptual differences. The Freedom House survey, for instance, attempts to make a direct assessment of capitalism for the purposes of selecting capitalist criteria that could be easily adjusted by a capitalist-minded government (Freedom House 1996, 7-8). Using indicators that receive a broad consensus as those measuring economic freedom, it furnishes a more expansive operationalisation of the concept of capitalism, allowing for an active role of trade unions and welfare provisions (Burkhart 2000, 240). Because I am looking for a concept of economic freedom that can be considered synonymous with capitalism defined as the freedom to control one’s private property through markets, that measure is too wide.

The Fraser Institute’s *Economic Freedom of the World* index, by contrast, equates economic freedom unambiguously with the freedom of economic actors to control and dispose of their property as they see fit. The dataset, collected and updated by Gwartney et al. (2001), contains estimates of economic freedom for more than 100 countries over the 1975-95 period. Those estimates are based on objective information for each country in four component areas: (1) money and inflation, (2) government operations and regulations, (3) takings and discriminatory taxation, and (4) restrictions on international exchange. Ratings of each component are determined for various years from the 1970s onwards. The component scores range from 0 to 10, with 10 representing the highest possible, most capitalistic, rating. From these ratings, a summary index for each country is calculated. For the present analysis I include only four temporal economic freedom observation points per country – 1990, 1995, 2000 and 2001 – and average these to obtain a structural indicator of the degree to which a country was capitalist during the
1990s. Figure 7.9 displays economic freedom scores for the 31 countries in the present analysis. It will not surprise much to find that the league table is topped by the United States as the most capitalist country. Countries with strong social-democratic traditions are found in the middle. Half a decade after the collapse of their planned economies, the former communist countries still rank rather low.

7.4.9 Economic development

In the comparative political economy literature, country levels of economic development have been conceptualised in various ways, including energy consumption, income levels, and growth rates (cf. Crepaz 1995, 403; Scruggs 1999, 15-16). In the present analysis, I use gross domestic product (GDP) per capita, which is readily available for the 31 countries in the analysis from OECD records. Per capita income is measured in US Dollar purchasing parity for the year 2000. Figure 7.10 shows how per capita GDP is distributed across the 31 countries. In order to avoid an uninformative large number of decimal points, per capita GDP is forthwith expressed in units of $1,000.

7.4.9 Political crisis

For the purpose of the present analysis, I define major political crisis as an event or period of non-trivial constitutional change or political violence including war during the time period from 1980 until the point of measurement of environmental regulatory strength (2001). Applying this coding rule to the countries in the dataset produces the following list of countries that experienced political crisis during the relevant period: Czech Republic, Hungary, Israel, Korea, Lithuania, Mexico, Poland, Slovenia and Spain.

Table 7.1 shows descriptive statistics of all variables in the model.

---

87 Despite the Falkland war of 1982, I did not include the UK among the countries experiencing major crisis. The episode was too remote, both geographically and cognitively, to upset the routine of British politics.
Figure 7.9 Economic freedom in 31 countries (1990s)

Source: Gwartney et al. 2001.
Figure 7.10 GDP per capita in 31 countries (2000 US Dollar PPP)

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (2000 US Dollar PPP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>30,000</td>
</tr>
<tr>
<td>Iceland</td>
<td>28,000</td>
</tr>
<tr>
<td>Switzerland</td>
<td>27,000</td>
</tr>
<tr>
<td>Canada</td>
<td>25,000</td>
</tr>
<tr>
<td>Denmark</td>
<td>25,000</td>
</tr>
<tr>
<td>Belgium</td>
<td>23,000</td>
</tr>
<tr>
<td>Austria</td>
<td>22,000</td>
</tr>
<tr>
<td>Japan</td>
<td>21,000</td>
</tr>
<tr>
<td>Australia</td>
<td>20,000</td>
</tr>
<tr>
<td>Netherlands</td>
<td>20,000</td>
</tr>
<tr>
<td>Ireland</td>
<td>20,000</td>
</tr>
<tr>
<td>Germany</td>
<td>19,000</td>
</tr>
<tr>
<td>Finland</td>
<td>18,000</td>
</tr>
<tr>
<td>France</td>
<td>17,000</td>
</tr>
<tr>
<td>Sweden</td>
<td>16,000</td>
</tr>
<tr>
<td>Italy</td>
<td>15,000</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>14,000</td>
</tr>
<tr>
<td>New Zealand</td>
<td>13,000</td>
</tr>
<tr>
<td>Israel</td>
<td>12,000</td>
</tr>
<tr>
<td>Spain</td>
<td>11,000</td>
</tr>
<tr>
<td>Korea</td>
<td>10,000</td>
</tr>
<tr>
<td>Slovenia</td>
<td>9,000</td>
</tr>
<tr>
<td>Portugal</td>
<td>9,000</td>
</tr>
<tr>
<td>Greece</td>
<td>8,000</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>7,000</td>
</tr>
<tr>
<td>Hungary</td>
<td>6,000</td>
</tr>
<tr>
<td>Poland</td>
<td>5,000</td>
</tr>
<tr>
<td>Mexico</td>
<td>4,000</td>
</tr>
<tr>
<td>Lithuania</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Source: WEF 2002.
<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Regime Stringency</td>
<td>30</td>
<td>5.52</td>
<td>0.98</td>
<td>3.57</td>
<td>6.73</td>
</tr>
<tr>
<td>Environmental Policy Pledges</td>
<td>24</td>
<td>5.61</td>
<td>2.98</td>
<td>0.04</td>
<td>12.13</td>
</tr>
<tr>
<td>Economic Voting</td>
<td>24</td>
<td>3.28</td>
<td>3.23</td>
<td>0.07</td>
<td>12.78</td>
</tr>
<tr>
<td>Business share in 3rd-level Education</td>
<td>27</td>
<td>49.54</td>
<td>15.34</td>
<td>19.40</td>
<td>74.00</td>
</tr>
<tr>
<td>Business share in R&amp;D</td>
<td>25</td>
<td>21.59</td>
<td>20.15</td>
<td>0.27</td>
<td>75.60</td>
</tr>
<tr>
<td>Majoritarian-Consensus</td>
<td>24</td>
<td>0.32</td>
<td>0.99</td>
<td>-1.39</td>
<td>1.87</td>
</tr>
<tr>
<td>Corporatism</td>
<td>24</td>
<td>3.26</td>
<td>0.98</td>
<td>1.88</td>
<td>4.63</td>
</tr>
<tr>
<td>Economic Freedom</td>
<td>31</td>
<td>6.95</td>
<td>0.84</td>
<td>5.00</td>
<td>8.23</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>31</td>
<td>22,240</td>
<td>7,130</td>
<td>6,999</td>
<td>36,263</td>
</tr>
<tr>
<td>Political crisis</td>
<td>31</td>
<td>-</td>
<td>-</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>
7.5 Analysis and results

Before estimating the full structural model of the informational determinants of environmental regimes stringency I therefore first obtain estimates of the impact of economic-electoral constraints – economic voting – on environmental regulatory strength, controlling for GDP per capita. Initial tests have suggested that the natural log of the economic voting scale serves much better as a predictor of environmental regulation than its unlogged version, judged by the goodness of fit. For this reason I use a logged (ln) transformation of the economic voting scale in the estimations that follow.

Table 7.2 Environmental Regime Stringency and Economic Voting

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Voting</td>
<td>0.22</td>
<td>0.38</td>
<td>-0.14</td>
</tr>
<tr>
<td></td>
<td>(2.34)*</td>
<td>(3.23)*</td>
<td>(0.23)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.12</td>
<td>0.05</td>
<td>0.08</td>
</tr>
<tr>
<td></td>
<td>(8.99)**</td>
<td>(2.50)*</td>
<td>(1.27)</td>
</tr>
<tr>
<td>Econ. Voting (squared)</td>
<td></td>
<td></td>
<td>-0.07</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.46)</td>
</tr>
<tr>
<td>Constant</td>
<td>3.24</td>
<td>4.20</td>
<td>4.08</td>
</tr>
<tr>
<td></td>
<td>(12.19)***</td>
<td>(13.45)***</td>
<td>(3.24)**</td>
</tr>
<tr>
<td>Observations</td>
<td>24</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.77</td>
<td>0.70</td>
<td>0.34</td>
</tr>
</tbody>
</table>

Note: Estimation is by OLS with Huber-White correction of standard errors. Absolute value of heteroskedasticity-robust t-statistics in parentheses; * significant at 5%; ** significant at 1%; *** significant at 0.1%.
Regression results are reported in Table 7.2. Counter to my expectations, environmental regimes are actually more stringent, the more economic perceptions determine electoral outcomes (model 1). The positive effect of economic voting on environmental regulation is rather strong. The constructed and logarithmic nature of the economic voting scale makes it difficult to interpret its effect on environmental regime stringency. Taking the natural base of the coefficient for economic voting yields

$$e^\beta = 2.72^{0.22} = 1.25.$$  

This means that a one unit increase on the scale of economic voting leads, on average, to an increase of a unit and a quarter in environmental regime stringency. For example, moving from -1.92 (0.15 unlogged), the level of economic voting observed in Lithuania, to New Zealand’s economic voting level of -.93 (0.40 unlogged), corresponds to a shift in environmental stringency from a rather poor score of 4.19 in Lithuania to an impressive 5.44, a level of environmental regime stringency somewhere between those observed in Ireland and Japan. Thus, rather than constraining the ability or willingness of policymakers to enact stringent environmental regulation, economically motivated voting behaviour appears to go hand in hand with strong environmental policies.
Does this mean that the structural constraints hypothesised in the work of Lindblom, Przeworski and Wallerstein, or Stigler, are not relevant for environmental politics? Or are there problems of measurement such that the index of economic voting constructed here fails to measure the extent of structural constraints manifesting themselves through the economic vote nexus? An inspection of the distribution of the errors suggests that other factors might be responsible for the unexpected finding. Figure 7.11 plots the residuals from the regression analysis of model (1) against the natural logarithm of the economic voting scale. A visible distinction emerges between two groups of countries: The established democracies of the 'old West' that have enjoyed stable democracies during most of the post-war period are mostly above a line predicting environmental regulatory strength and exhibit an inverted U-shape distribution. Exceptions are Australia, Iceland, Norway, UK and US. By contrast, the group comprising the newer democracies of Central and Eastern Europe, the former Soviet Union, but also including Portugal, Spain, Korea and Mexico, are largely located below the line of prediction. The
exceptions here are the Czech Republic, Hungary, Lithuania and Poland. This set of countries exhibits the linear, positive relationship between economic voting and environmental regime stringency suggested by model 1 in Table 7.2. For this reason, I run separate regressions for the two groups of countries – those with and those without the experience of major political crisis or regime change since 1980. The analysis of residuals also reveals signs of heteroskedasticity, with the size of errors gradually decreasing as the level of economic voting goes up. As a result, the parameter estimates will be inefficient and may even be biased (Greene 2000, 501-505).

Model (2) estimates the relationship between economic voting and environmental regulation for those countries only that experienced major political crisis since 1980. In order to obtain heteroskedasticity-robust estimates and avoid biased slope estimates or inflated standard errors, I use the Huber-White sandwich method for estimation of the covariance matrix. The results show that the positive relationship between economic voting and the environment is stronger for this subset of countries compared to the group of all countries. This should not be interpreted as implying that in these countries higher levels of economic voting in any sense cause stronger environmental policies. I am not aware of any plausible theoretical argument that positively connects levels of economic voting with environmental regulation in any directly causal way. I suggest, rather, that both phenomena are expressions of underlying processes of democratic consolidation in these countries (cf. Linz and Stepan 1996): the further a country has proceeded on the path of democratic consolidation, the more we observe structural and behavioural features, as well as policy emphases, that are characteristic of stable and established democracies. These characteristics include not least the development of more or less predictable patterns of economically driven voting behaviour, and a spread of postmaterialist concerns for quality of life issues such as a healthy environment.
Responding to the curvilinear distribution of the errors for the group of longer established democracies reported earlier, I specify a quadratic function to model the relationship between economic voting and environmental regulation in this subset of polities. The equation contains a quadratic transformation of the economic vote variable, in addition to the untransformed measure (Model 3). Looking at these countries, then, we no longer detect a positive linear association between economic voting and environmental regulation. Instead, what we see is a mildly negative, if statistically insignificant, relationship between the strength of the economic vote and the stringency of the environmental regime. The quadratic term also has a negative and statistically insignificant coefficient.

Figure 7.12 plots the data points on the dimensions of economic voting and regime stringency alongside lines connecting the predicted values for environmental regime
stringency as a function of economic voting for each group of countries. It can be clearly seen here how the group of crisis-experienced countries exhibits a rather strong, positive linear relationship between the two variables (the dotted line). The fitted line for the established democracies (dashes) follows this pattern throughout the lower half of the economic voting scale. It then flattens out, however, eventually taking on a negative slope to summarise the relationship between economic voting and environmental regime stringency for the upper half of the economic voting scale. This inverted U-shape relationship suggests that high levels of economic voting constrain the ability or willingness of policymakers to pursue strict environmental policies in the way implied by the theory of structural state dependence. However, the constraining effect is rather mild, and fails to reach statistical significance. Thus, the theory of structural dependence of the state of capital does not receive significant support from the statistical relationship between economic voting and environmental regulation. Two further lessons can be drawn from this analysis. Firstly, the informational-structural model of environmental regime stringency should include a dummy variable to provide a separate intercept for crisis-experienced countries. Secondly, the effect of economic voting on environmental policy should be modelled as curvilinear, at least for the more established and stable countries.

I now turn to estimation of the full structural model of the informational and structural-economic determinants of environmental policy outlined in the previous section. The first equation in the model contains an endogenous variable among the explanatory variables, thus violating the assumptions of OLS regression. The endogenous variable – environmental policy pledges – cannot be considered to be fixed across repeated samples, and, used as a regressor, is no longer independent of the error term (Greene 2000, 653-654). As a consequence, the OLS estimator will be biased, and an alternative estimator becomes necessary. An instrumental variables technique will therefore be more suitable. If an appropriate instrumental variable can be found for each endogenous variable appearing on the right hand side of the reduced form equations in the model, this technique will provide consistent estimates (Greene 2000, 680-682). The exogenous variables in the equations are natural candidates for instrumental variables. In this situation, two-stage-least squares regression is the estimator of choice. In a first stage, the instruments are used for the creation of new endogenous variables to substitute for the
original ones. The new endogenous variables then no longer violate the recursivity assumption of OLS regression, so that, in a second stage the regression is computed using OLS, but with the newly created variables. With a surfeit of instruments, the model is overidentified. Therefore, I report the results of Sargan’s test of overidentifying restrictions for each instrumented equation.

As can be seen from the distributions of the variables in Table 7.1, data for only three of the variables – GDP per capita, political crisis and economic freedom – are available for all 31 countries. On all other variables the number of missing cases ranges from one, in the case of environmental regimes stringency, to seven, for corporatism. In the latter case, the ratio of missingness approaches almost one quarter of the total number of cases. Such levels of missingness can produce problems for the calculation of point estimates in regression analysis. If missing data points are uncorrelated with the errors or with the variables of interest, they pose few problems beyond reducing the number of observations and thereby compromising the accuracy of the estimates. Given the structural nature of much of the data, no obvious relation between missingness and the variables of interest appears plausible. Using the most commonly applied way of dealing with missing observations, listwise deletion, will therefore be unlikely to bias my estimates. However, valuable information will be lost and the efficiency of the estimator is compromised. Given the overall small number of cases, it is desirable to avoid this.

Assuming that the missing data actually exist but have simply not been recorded, I use a procedure designed by King et al. (2001) to impute simulated values for each missing item. Exploiting the advantages of repeated sampling of simulated distributions of covariances, the technique creates imputations that reflect all available information contained in the data. This is done by generating 50 draws from an approximating distribution for each of the missing values based on linear estimates of the covariances of all observed data points in the data matrix. The results from the draws are then used to form imputations of ten values for each missing item, creating ten completed datasets that will have different imputations in place of the erstwhile missing data points (cf. 

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88 These are tests of the joint null hypothesis that the excluded instruments are valid instruments, i.e., uncorrelated with the error term and correctly excluded from the equation (Baum, Schaffer and Stillman 2003).
King et al. 2001, 53). After imputation, I obtain point estimates of the erstwhile missing items by averaging across the ten separate imputed values. As a result of this procedure, the regression analyses that follow make use of complete datasets containing both observed and imputed observations on all variables for 31 countries.
Table 7.3 Simultaneous Estimates of Environmental Regime Stringency and Policy Pledges on Private Share in 3rd-level Education

<table>
<thead>
<tr>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Policy Pledges</td>
<td>0.18 (0.07)*</td>
<td>0.21 (0.06)***</td>
<td>0.17 (0.06)**</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.09 (0.02)***</td>
<td>0.19 (0.09)*</td>
<td>0.07 (0.01)***</td>
</tr>
<tr>
<td>Private Share in 3rd-level Education</td>
<td>0.005 (0.008)**</td>
<td>-0.12 (0.04)**</td>
<td>0.013 (0.006)*</td>
</tr>
<tr>
<td>Economic Voting (sqrd.)</td>
<td>-0.47 (0.20)*</td>
<td>-0.57 (0.19)**</td>
<td>-0.51 (0.18)**</td>
</tr>
<tr>
<td>(Econ. Voting)*(Edu)</td>
<td>0.01 (0.01)</td>
<td>0.01 (0.00)</td>
<td>0.01 (0.00)*</td>
</tr>
<tr>
<td>Political Crisis</td>
<td>0.26 (1.42)</td>
<td>0.09 (1.23)</td>
<td>1.59 (1.61)</td>
</tr>
<tr>
<td>Majoritarian-Consensus</td>
<td>0.10 (0.09)</td>
<td>0.24 (0.10)*</td>
<td></td>
</tr>
<tr>
<td>Corporatism</td>
<td>1.45</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Freedom</td>
<td>1.45 (0.84)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Voting</td>
<td>-2.31 (1.46)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>2.46 (0.38)***</td>
<td>4.31 (2.01)*</td>
<td>1.94 (0.32)***</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.82</td>
<td>0.61</td>
<td>0.77</td>
</tr>
<tr>
<td>Equation F-test</td>
<td>38.41***</td>
<td>9.87***</td>
<td>43.87***</td>
</tr>
<tr>
<td>Sargan’s statistic</td>
<td>0.044</td>
<td>0.098</td>
<td>0.554</td>
</tr>
</tbody>
</table>

Note: N = 31. Estimation by two-stage least squares regression; standard errors in parentheses; * significant at 5%; ** significant at 1%; *** significant at 0.1%
### Table 7.4 Simultaneous Estimates of Environmental Regime Stringency and Policy Pledges on Private Share of National R&D

<table>
<thead>
<tr>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environmental Policy Pledges</strong></td>
<td>0.19</td>
<td>0.16</td>
<td>0.15</td>
</tr>
<tr>
<td></td>
<td>(0.04)***</td>
<td>(0.04)***</td>
<td>(0.04)**</td>
</tr>
<tr>
<td><strong>GDP per capita</strong></td>
<td>0.10</td>
<td>-0.19</td>
<td>0.11</td>
</tr>
<tr>
<td></td>
<td>(0.01)***</td>
<td>(0.11)</td>
<td>(0.10)*</td>
</tr>
<tr>
<td><strong>Business Share of National R&amp;D (sqrd.)</strong></td>
<td>0.002</td>
<td>0.12</td>
<td>-0.003</td>
</tr>
<tr>
<td></td>
<td>(0.006)</td>
<td>(0.05)*</td>
<td>(0.006)</td>
</tr>
<tr>
<td><strong>Economic Voting</strong></td>
<td>0.19</td>
<td>-0.04</td>
<td>-0.54</td>
</tr>
<tr>
<td></td>
<td>(0.56)</td>
<td>(0.56)</td>
<td>(0.44)</td>
</tr>
<tr>
<td><strong>Economic Voting × R&amp;D</strong></td>
<td>-4.87</td>
<td>-4.87</td>
<td>-7.45</td>
</tr>
<tr>
<td></td>
<td>(1.42)**</td>
<td>(1.38)**</td>
<td>(1.66)**</td>
</tr>
<tr>
<td><strong>Majoritarian-Consensus</strong></td>
<td>0.12</td>
<td>0.22</td>
<td>-2.10</td>
</tr>
<tr>
<td></td>
<td>(0.09)</td>
<td>(0.11)</td>
<td>(0.87)*</td>
</tr>
<tr>
<td><strong>Corporatism</strong></td>
<td>2.21</td>
<td>6.54</td>
<td>1.79</td>
</tr>
<tr>
<td></td>
<td>(0.34)***</td>
<td>(2.42)**</td>
<td>(0.32)**</td>
</tr>
<tr>
<td><strong>R-squared</strong></td>
<td>0.80</td>
<td>0.45</td>
<td>0.83</td>
</tr>
<tr>
<td><strong>Equation F-test</strong></td>
<td>36.11***</td>
<td>4.97***</td>
<td>46.54***</td>
</tr>
<tr>
<td><strong>Sargan’s statistic</strong></td>
<td>0.989</td>
<td>1.651</td>
<td>2.056</td>
</tr>
</tbody>
</table>

*Note: N = 31. Estimation by two-stage least squares regression; standard errors in parentheses; * significant at 5%; ** significant at 1%; *** significant at 0.1%*
The results of two-stage least squares estimation of the structural model are shown in tables 7.3 and 7.4. The models in Table 7.3 conceptualise the information variable as the private-public ratio of third-level education funding; those in Table 7.4 use business' share of overall national expenditure on R&D. Starting with Table 7.3, we note, firstly, that environmental policy pledges have positive and noteworthy effects on regulatory regime stringency in all but the last model (4). This model contains an untransformed measure of economic voting in addition to the quadratic term which, however, does not register as significant. Economic development as measured by per capita GDP (in units of 1,000 USD) has the hypothesised positive effect on environmental policy pledges and regime strength across all four models (failing only in the pledge equation of Model 3 to reach statistical significance). Likewise, the squared economic voting term has a significant constraining effect on the formulation of environmental pledges in all models.

Turning to the main variable of interest – business’ informational power – we find that the private-public ratio of third-level education expenditure has significant negative effects on pledge formulation of roughly equal size across all four models. The coefficient in Model 3 ($b_2 = -.16$), for example, implies that a ten-percent increase in business’ share of national third-level education is associated with a one and half-unit decrease in a country’s environmental pledge score. To illustrate this, the model predicts that a decrease of the state’s share of third-level education expenditure in Germany (92.3 percent) by 20 percent to the level observed in Ireland would reduce Germany’s environmental pledge score from its present 11.5 by two points to a score of about 8.3. By contrast, the private-public ratio of third-level education expenditure is largely irrelevant for the implementation of policy. The interaction term of economic voting and information has only small coefficients that are significant in only half of the models and exhibit the wrong sign. Looking at the remaining factors, we find that corporatist modes of interest group intermediation have the hypothesized positive effect on the strength of the environmental regime, but consensus democracy does not, confirming earlier work by Crepaz (1995) and Scruggs (1999). Neither economic freedom nor the crisis dummy contribute to the explanation of environmental policy pledges.

Turning to Table 7.4, we find that business’ share of national R&D does not perform as well as education funding in predicting environmental policy. Strikingly, while showing
significant effects in all four models, these are of the opposite direction than hypothe- sized, suggesting a positive effect of business' clout over research and development on environmental pledge formation. The economic voting variable fails to live up to the expectations implied in the model. In all other respects, the models using R&D funding behave as expected: GDP per capita exhibits the expected strong positive relationship with environmental regulation (but is insignificant and has the wrong signs in the pledge equations). As hypothesised, pledges can be relied upon to determine the stringency of actual regulation across the alternative specifications. The effect of corporatism carries over into the R&D models, while the crisis-dummies now make a significant contribution to explaining (the absence of) environmental policy pledges.

7.6 Conclusions

In this chapter, I have tested the core claim of the informational model of business political power – that business' informational advantage matters for political outcomes. I formulated and tested a structural econometric model of the informational and economic-structural determinants of environmental regulation in 31 countries. My expectation that weaker economic-structural constraints, as measured by the strength of the economic vote, allow policymakers to enact stricter environmental policies has survived the test at least for the richer and longer established capitalist democracies. But even here, the expected negative effect of economic voting on environmental policy is confined to a subset of countries in the upper half of the economic voting scale, suggesting that economic voting per se has a more complex and curvilinear relationship to environmental regime stringency than expected. More work is needed to elucidate the causal mechanisms that account for the curvilinear relation between these variables. Despite the difficulties involved in measuring main variables, the two-stage least squares estimates of the relationships between information asymmetry, economic voting, environmental issue salience, and environmental regime strength support the hypothesised negative effects of business' informational power when this variable is measured as the private-public ratio of third-level education. However, the effect is of the opposite direction when business' informational clout is measured as its share of national R&D expenditure. As this latter measure is the theoretically more valid indicator of the information variable, these findings have implications for the informational role of special interest groups. By contrast, the private-public ratio of third-level education, while cer-
tainly indicative of the structural makeup of knowledge production in society as well as of the relative influence of different societal interests over knowledge production, is only indirectly relevant to policymakers’ dependence on business for assessing the costs of environmental policy. More work is needed to further explore the nature of the underlying relationship between the funding patterns of third-level education and the informational autonomy of public decisionmaking agencies.
8 Conclusion

In this study, I have formulated and tested a model that explains business political power by reference to business' capacity to manipulate the beliefs of policymakers regarding the costs and benefits of policy. Drawing on previous explanations of the sources and limits of business political power, my model emphasises the importance of informational privilege as a central aspect of capitalist property rights. Reviewing research on corporate political action and elite networks in Chapter 3, I find that these sources of business political power fail to provide satisfactory explanations of business' influence on political outcomes. A review of the ideological dimension of business influence over public policy has led me to reject the notion that business can successfully and on a large scale manipulate people's preferences to bring them in line with its own interests whilst contradicting citizens' 'real interests'. I reviewed claims that the privilege capitalists hold over investment and allocation of society's productive assets enables them to constrain the set of feasible options available to policymakers and, by implication, to citizens who mandate elected officials to carry out policy on their behalf. While these constraints are important parameters for the policymaking capacities of elected officials, their explanatory value is limited, as both the ubiquity of business political action and the real possibilities of business' political defeat reveal. Because referring to the privileged position arising from these constraints as 'power' invites serious conceptual problems, they are better conceptualised as 'dominance' or 'domination' (Hyland 1995, 208-209).

The model of the informational power of business in capitalist democracies developed in Chapter 4 combines the contributions of these approaches by analysing how business uses its superior insights into the relevant information about structural constraints to instil false beliefs about the set of feasible options in policymakers. I argued that business informational privilege enables capitalists to obtain preferred political outcomes through lobbying even if alternative policies would be preferred by fully informed voters and policymakers. While theories of the structural dependence of the state on capital stipulate that business gets what it wants because any other policy would also be detrimental to voters and policymakers, my model shows that business sometimes succeeds in politics because it can make policymakers and voters believe this to be the case even if in fact it is not. Non-business interests are aware of their relative informational disadvan-
tage. It is for this reason that, for decades, environmentalists have demanded greater public access to information, particularly scientific data, and lobbied for 'freedom of information' and 'right to know' legislation (Paehlke 1988). While I have not explicitly discussed the extension of this demand to voters and policymakers, it is not difficult to see how business informational privilege also implies a knowledge advantage vis-à-vis voters.

In a progression of levels of analysis, from detailed-individual to aggregate-structural data, a case study, a micro-quantitative analysis and macro quantitative tests have been used to evaluate the model’s central claim that information matters for business influence over political decisionmaking. The analytical narratives of the case studies presented detailed evidence from real-world lobbying scenarios that is consistent with the predictions of the signalling model of business political power. The cases refer to two equilibrium outcomes, one in which business tells the truth about the state of the world, and another in which the high policy costs for business generate incentives for lying. Both outcomes would be difficult to explain using the other approaches to the study of business political power discussed in the previous chapter.

The micro-quantitative analysis in Chapter 6 provided tests of individual-level implications of the informational model of business political power. I found evidence that business lobbies left-leaning parties with reduced frequency because untrue claims are more likely to be exposed when made to 'anti-business' parties as opposed to 'pro-business' parties. This implies that, when devising their lobbying strategies, business lobbyists already factor in the chances of the lobbying message achieving its desired outcome, effectively gearing their lobbying strategy towards its effects on short-term policy outcomes as well as the lobbyist's long-term reputational interests. The analysis also showed that frequent contacts with business representatives lead policymakers to be receptive to the information conveyed by lobbying — something that is achieved to a far lesser extent by trade unions and public interest groups. This suggests that the messages of business carry more clout than those emitted by non-business interest groups, even if all groups lobby at the same level of frequency.

Finally, I have tested the core claim of the informational model of business political power — that business’ informational advantage matters for political outcomes — by
means of a structural econometric model of the informational and economic-structural determinants of environmental regulation in 31 countries. My expectation that weaker economic-structural constraints, as measured by the strength of the economic vote, allow policymakers to enact stricter environmental policies has survived the test at least for the richer and longer established capitalist democracies. The central empirical implication of the informational model has found partial support. The simultaneous equation model of the relationships between information asymmetry, economic voting, environmental issue salience, and environmental regime strength has produced the expected negative effect of business control over knowledge production when this variable is measured as the private share of third-level education. However, the expected negative effect fails to materialise when business’ informational clout is measured as its share of national R&D expenditure. Because this latter, statistically insignificant measure of the information variable is the theoretically more valid indicator for business informational advantage vis-à-vis the state with respect to assessing the effects of environmental policy, these findings suggest that better tests with improved measurement are needed for further analysis of the informational aspects of business’ political power.

How do the results of my inquiry relate to the main theoretical approaches to the study of business and politics? Network and elite analyses assume that it is who you know that determines whether or not you get what you want in politics. By contrast, my model claims that political success for business is a function of what they know. If, as has been suggested by some scholars (e.g., Dowding 1995, König and Bräuninger 1998), network formation is treated as a dependent variable, the quantity and quality of an actor’s private information may well serve to explain why that actor is part of a policy network or not. My model agrees with the basic claim of pluralist theories of corporate political action that the chances of political success increase with the amount of resources – money, skills, and time – invested into a political campaign. However, while pluralists tend to view the link between business political action and outcomes as a quid pro quo relationship – the more contributions business makes, the more political benefits it can purchase – my model views costly political action primarily as a means to confer credibility on policy-related messages that might otherwise be dismissed as self-serving babble. My findings have an interesting relationship with the main synthetic claims derived from Olson’s (1971) application of public choice analysis to the study of interest groups. The informational model of business political power concurs with Olson’s expectation that
business tends to carry the day in politics by virtue of being a small group, compared to labour or consumers. For Olson, this is a result of business' ability to overcome free-rider problems with relatively greater ease than the larger groups. From the perspective of lobbying as strategic information transmission, by contrast, business is more likely to succeed because its members find it easier to coordinate their speech acts and, thereby, minimise policymakers’ access to independent information or second opinions.

As I acknowledged in Chapter 3, the distinctions between these various strands of explanation are real and artificial at the same time, as they represent ideal-typical categorisations. In the real world of business and politics, the different aspects of political reality that are isolated by the respective theoretical strands, including the informational model advanced here, often overlap. For example, studying the implementation of eco-labelling systems in Canada, Harrison found instances of industries boycotting eco-labels, where the businesses taking part in the boycott included firms who would have qualified for eco-label certification right away (Harrison 1999, 111-112). One such firm, Scott Paper, which alone accounts for fifty percent of Canadian sales of sanitary paper products, actually stood to be a direct beneficiary of a proposed eco-labelling scheme vis-à-vis its competitors in the Canadian market. However, according to an industry executive interviewed by Harrison, Scott Paper was willing to forgo a competitive opportunity in order to protect the larger interests of the industry. This ‘team player’ role was reinforced by the company president’s position as Chair of the Canadian Pulp and Paper Association (Harrison 1999, 119). This case, in which the policy costs ($\beta$) were actually negative for the firm, highlights how incentives for class-wide political action emphasised by elite network studies can override the incentive a firm has for defecting from collective action or choosing a separating lobbying strategy.

Moreover, business will often utilise simultaneously the various avenues for exerting political influence emphasised by the different approaches, with the expectation that they mutually reinforce each other. An example of such multi-strategy political action is a recent lobbying campaign directed at the British Labour Government by British American Tobacco (BAT). In a double effort to dissuade the government from raising

89 The following account is based on extensive reporting in ‘Tobacco firm gained secret access to Blair’ The Guardian, 27 October 2004.
tobacco tax and to avert an inquiry into allegations that the firm was colluding with cigarette smugglers, the chief executive of the world’s second biggest tobacco firm, Martin Broughton, put private pressure on Tony Blair and the then trade secretary, Stephen Byers, on the occasion of classic backroom lobbying in May 2000. Simultaneously, the company made use of personnel resources from ‘revolving door’ strategies that ensured that two former senior officials at the Department of Trade and Industry are now on BAT’s payroll. These new employees were used to approach their former departmental colleagues. Until the behind-the-scenes episode with Blair and Byers, all of BAT’s requests for private meetings had been declined.\(^9\)

Broughton’s access to Blair and Byers was itself only possible because Broughton figured officially not as the BAT boss, but as a representative for the ‘multinational chairmen’s group’, whose members also include BP, Shell, Diageo, Unilever, and Vodafone. This role elevated Broughton onto a shortlist of people invited to breakfast with the British prime minister, highlighting the importance for individual businesses of overcoming collective action problems and acting jointly with other firms, even across sectors, in order to achieve private political goals. Once communications had been brought into a friendlier format, Broughton followed up with intensive lobbying of the labour government, extending the subject matters from the inquiry to taxation. In a letter to Blair, he demanded that taxes on cigarettes be cut rather than raised, as had been the government’s plan. He predicted negative inducement effects of the planned tobacco tax increase, claiming that it would encourage increased smuggling. According to Broughton, ‘The chosen tax policy contains within it the seeds of its own destruction.’ This episode illustrates how in the real world of lobbying, any one aspect of business political resources will hardly be sufficient to explain political outcomes on its own.

What does the theory of business informational power imply for the state of democracy in the industrialised countries of the West? My results suggest that the Schumpeterian elite pluralism model of democracy (Held 1996, 177-82) is inherently vulnerable to a pro-business policy bias that ensures business’ political interests tend to prevail when they diverge from aggregate public preferences. Moreover, the same informational and

\(^9\) Previous attempts at playing the ‘revolving door’ card – the former Tory chancellor Ken Clarke is now a director of BAT – had remained unsuccessful.

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structural factors that provide business with a strategic advantage *vis-à-vis* policymakers in policy struggles would also constrain the policymaking capacities of democratic institutions of a more participatory nature, including various forms of direct democracy. However, it is possible that various currently debated institutional solutions for deliberative democracy – I am thinking here for example of recent developments in the area of ‘citizen juries’ – can lead to a narrowing of the information gap between business and democratic political institutions and decisionmaking bodies.

As long as the institution of private property of the means of production exists along the lines that we are familiar with today, however, this gap will never be completely closed. What we are dealing with are predictions made by one party about its own future behaviour. A capitalist firm, by definition, makes its own business decisions. And what a firm intends to do is, logically, private information. Others can only guess what a firm’s real intent is. The reason is that much of business’ private information is a legally, and in many countries even constitutionally, protected integral part of the right to private property. The policy-relevant information at the centre of the present study is *privately owned* in the most literal sense of that phrase. A protected sphere of informational privacy is part of capitalist property rights over productive assets, and it is widely assumed that capitalism cannot function without this protected informational realm. Capitalist private property means business’ informational privilege. Transgressions of informational property rights by other private actors are acts of industrial espionage. Their violation by the state is tantamount to partial expropriation. The legal protection of information about production and production costs is a constituent institution of capitalism. The informational privilege can therefore not be taken away from business without fundamentally altering the nature of the capitalist institution of private property. For similar reasons, political reforms restricting corruption, lobbying and other channels through which business may have an undue influence over political processes and outcomes can only have limited effects. The findings generated in this thesis suggest strongly that the fundamental cause of a pro-business policy bias lies elsewhere, namely with the information asymmetry between special interests and policymakers. Therefore, the effectiveness of such reforms will be limited.

The point is sometimes made that, in the age of institutional investors and complex finance, ownership of large corporations is widely dispersed among actors, not least ordi-
nary citizens, through saving schemes, pension funds, and employee share options. The argument could be made, therefore, that if big business dominates politics by virtue of channelling investment to wherever its returns are maximized, as I have tried to demonstrate in this study, then really what we are talking about is domination by the multitude of citizens who have stakes in these schemes. However, this argument usually overstates the degree of dispersal of capital in Western nations. The bulk of assets continue to be owned by a small, wealthy elite. Moreover, the unequal degree of the concentration of capital is increasing. Furthermore, as Mitchell (1997) points out, this argument underestimates the difficulties for these small-time investors in communicating their interests to fund managers, not to mention to corporate management. And finally, even if assets were as widely distributed as some suggest, we would still be dealing with an invasion of profit-maximising principles of decisionmaking into an area where, according to widely held understandings of representative democracy, decisions should be made consciously through democratic procedures. And in a democracy, citizens' entitlements to participate in these decisionmaking procedures derive from citizenship, not from asset ownership. This pertains with particular force to environmental policymaking where, according to Jacobs (1996, 111), markets should operate within the constraints imposed by public decisions made for the common good. 'The market should be servant to society, not master.'

Business' informational advantage does not guarantee business' victory in politics, as the case of small business banking regulation in Britain has shown. While explanations of the structural dependence of the state on capital are fundamentally deterministic, the informational model of business political power brings political action back into the study of business and politics while simultaneously acknowledging the powerful constraints on public policymaking that exist in capitalist societies. Structural determinists could still argue, however, that policy that is disliked by business is actually beneficial for business in the longer term. This is the idea underlying Poulantzas' theory of the relative autonomy of the state in capitalism, according to which the state 'takes charge, as it were, of the bourgeoisie's political interests and realises the function of political hegemony which the bourgeoisie is unable to achieve' (Poulantzas 1973, 284). Empirical research on the relationship between environmental regulation and capitalist performance has indeed produced a striking wealth of evidence in support of this view. Studies of the effects of environmental regulation on productivity have suggested that,
while the policies in question are almost universally rejected by business, they tend to enhance productivity and profitability of the affected industries if they are still enacted in spite of business opposition (Berman and Bui 2001, 499-500). The reason why businesses shun the implementation of productivity enhancing technology is that the short-term costs of upgrading plant equipment are too high a hurdle to overcome voluntarily. In the terminology of the model formulated in Chapter 4, it is because the mild policy costs ($\beta$) are too high even if the severe policy costs ($\alpha$) are low or negative as stricter environmental policy turns out to be of overall benefit to business. It is this motive — and the empirical evidence supporting it — of capitalists’ seeming inability to recognise their own ‘real interests’ and take the appropriate action, and instead having to rely on the government to force productivity enhancing technology upon them against their will, that provides Poulantzas’ argument with such powerful appeal. It also sheds a rather gloomy light on the Schumpeterian notion of the creative and daring entrepreneur!

A number of problems remain that future research on the information dimension of business political power should address. Firstly, in the model presented in this study, I dealt explicitly only with the scenario in which business addresses its messages to a single audience — a policymaker. Game-theoretic research on strategic information transmission, however, has demonstrated that the informativeness of signals increases with the number of audiences (Farrell and Gibbons 1989, 1214). Relatedly, I have so far worked on the assumption of business as a single lobbyist. Austen-Smith and Wright (1992, 1994) show that the presence of two or more lobbyists can enhance the informativeness of signals. Extensions should therefore capture situations with two or more countervailing lobbyists, or include scenarios where business’ messages are received by audiences with different interests, such as shareholders or potential investors.

Secondly, Rasmusen (1993, 1997) and Sloof (1997) explored situations in which policymakers can acquire information independently of the lobbyist if they are willing to pay a price for the necessary investigation and verification of lobbyist’s claims. While the case of small business banking in the UK has to some extent covered this possibility, I have not treated the Treasury’s ability to obtain independent information as exogenous, nor have I problematised the costs of becoming informed. Policymakers might, for example, obtain relatively low-cost information clues through monitoring
firms’ dividends, which reveal information about past performance, or the market value of the firm’s stock, which reflects expectations about future profits (Binder 1985, Kennan and Wilson 1993). These mechanisms can become difficult to use in practise, however, as stock prices cannot reveal information about subsidiaries of diversified companies (Kennan and Wilson 1993, 96).

Thirdly, Lagerlof (1997) extends the basic model by assuming that a special interest group is imperfectly informed, but can acquire information by investigating the state of the world for a price. Future elaborations of the model should involve relaxing the assumption of zero information-acquisition costs for business or policymakers and explore how varying information costs affect the equilibrium behaviour of business lobbyists.

Fourthly, while lobbying costs are exogenous in the above model, others have analysed how information about a lobbyist’s use-value to the policymaker can be revealed if the lobbyist or the politician is able to determine these costs endogenously. For example, Lohmann (1995a) uses a modified setup of her model of social movement action by two groups to focus on contributions as a device for purchasing access. Finally, the current specification has followed others and conceived the lobbyist as pursuing a conservative strategy, i.e., whose goal is to avert a policy and preserve the status quo (cf. Crombez 2001, 24). Extensions may deal with scenarios where the lobbyist seeks policy change.

There is also much room for improving the empirical tests of the model. Inspiration for future tests can be drawn from studies on pledge fulfilment. Quantitative pledge studies were conducted for the UK by Rose (1974), for the US by Page (1978) and Pomper (1980), and comparatively for the UK and Canada by Rallings (1987). Rose, for example, identifies specific commitments to act (‘we will cut unemployment’), thus excluding vague and general statements like ‘an economy based on more jobs’, in order to see whether the party in government subsequently passed appropriate legislation or took specific action to fulfil them. While pledge fulfilment studies for the UK and the US found that parties tend to stay away from ‘big’ pledges (Royed 1996), elsewhere scholars have found that specific policy pledges were made – and fulfilled – on quite specific and important matters (Kalegeropoulou 1989, Thomson 1999). The present study has only kick-started research into the important informational dimension of business politi-
cal power. Much more work is needed to put the findings generated here on firmer empirical and theoretical ground.
Appendix I: Coding of Variables Used in Chapter 6

Main data source

Bernhard Wessels and Jacques Thomassen coordinated the study. National study directors were Irene Delgado and Lourdes Lopez Nieto in Spain; Louisa Gardella in Italy; Sören Holmberg, Martin Brothen, and Peter Esaiasson in Sweden; Manina Kakepati in Greece; Christina Leston Bandeira in Portugal; Michael Marsh and Mary Clare O'Sullivan in Ireland; Bernhard Wessels and Achim Kielhorn in Germany; Lieven De Winter and Patrick Dumont in Belgium and Luxemburg; and Colette Ysmal in France (see Katz and Wessels 1999, 250-251). The studies were administered as mail surveys. Fieldwork was carried out during the period 29.04.1996 – 21.07.1997. Representativity has been tested for party, gender, and age. The test results yielded Duncan indices below ten in most cases, with the exceptions of party in Greece, Italy, Luxembourg, and the Netherlands, and age in Greece.
### Coding of variables from European Members of Parliament Study 1996

<table>
<thead>
<tr>
<th>Variable name</th>
<th>Question wording</th>
<th>Coding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lobbyist influence over political decisionmaking</td>
<td>'How much do you take the opinion of [lobbyists] into account when making political decisions?'</td>
<td>Seven-point scale, ranging from 1 ('very much') to 7 ('very little')</td>
</tr>
<tr>
<td>Frequent business contact</td>
<td>'How often do you have contact with the following interest groups?' (industry, trade and commerce, or banking and insurance)</td>
<td>Coded 1 if respondent ticked 'at least once a month' or 'at least once a week'; 0 if otherwise.</td>
</tr>
<tr>
<td>Frequent trade union contact</td>
<td>'How often do you have contact with the following interest groups?' (trade unions)</td>
<td>Coded 1 if respondent ticked 'at least once a month' or 'at least once a week'; 0 if otherwise.</td>
</tr>
<tr>
<td>Frequent public interest group contact</td>
<td>'How often do you have contact with the following interest groups?' (Consumer associations, environmental organisations)</td>
<td>Coded 1 if respondent ticked 'at least once a month' or 'at least once a week'; 0 if otherwise.</td>
</tr>
<tr>
<td>Very frequent business contact</td>
<td>'How often do you have contact with the following interest groups?' (industry, trade and commerce, or banking and insurance)</td>
<td>Coded 1 if respondent ticked 'at least once a week'; 0 if otherwise.</td>
</tr>
<tr>
<td>Very frequent trade union contact</td>
<td>'How often do you have contact with the following interest groups?' (trade unions)</td>
<td>Coded 1 if respondent ticked 'at least once a week'; 0 if otherwise.</td>
</tr>
<tr>
<td>Very frequent public interest group contact</td>
<td>'How often do you have contact with the following interest groups?' (Consumer associations, environmental organisations)</td>
<td>Coded 1 if respondent ticked 'at least once a week'; 0 if otherwise.</td>
</tr>
</tbody>
</table>
Pro-business party

Parties were classified into pro-business and other parties based on the party families defined by the Zentrum für Europäische Umfrageanalysen und Studien (ZEUS) at the University of Mannheim. Parties were coded as 1 (‘pro-business’) if they belong to either Christian Democrats, Liberals, or Conservatives, and ‘0’ if otherwise.

ZEUS coding:
1 Social Democrats
2 Christian Democrats
3 Liberals
4 Radical Left
5 Conservatives
6 Greens
7 Regional
8 Nationalists

Left-right self-placement

‘In political matters some people talk about ‘left’ and ‘right’. Where would you place yourself on the following scale?’ (Ten-point scale, from 1 (=left) to 10 (=right)

Coded left (=1) if self-placement between 1 and 4, 0 if otherwise; right (=1) if self-placement between 7 and 10, 0 if otherwise.

Environmentalist

‘Here is a list of political issues. [Prompt list.] Which of these issues do you consider the most important, which comes second, and which comes third?’

Respondents were coded as environmentalists (=1) if they named ‘protection of the environment’ as the first or second most important issue.

Official in business organisation

‘Do you hold or have you ever held office in [a business organisation]?’

Coded 1 if MP answered ‘yes, at the moment’ or ‘yes, in the past’; 0 if otherwise

Capitalist

‘Please indicate your occupation immediately prior to your first election to the parliament, using the following

Coded 1 if MP answered ‘yes’ to any of these categories; 0 if otherwise
list (business employer, up to 10 employees; business employer, between 11 and 50 employees; business employer, with more than 50 employees)

**Coding of additional variables:**

<table>
<thead>
<tr>
<th>Variable name</th>
<th>Data source</th>
<th>Coding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government party</td>
<td>Roberto Ortiz de Zárate’s <em>European Governments</em> dataset (© Copyright ZPC, Roberto Ortiz de Zárate, 1996-2004). Available from: <a href="http://www.terra.es/personal2/monolith/home.htm">http://www.terra.es/personal2/monolith/home.htm</a> [Accessed 14 July, 2004].</td>
<td>Coded as 1 if the MP’s parliamentary party was part of a government coalition or was the only governing party at the time the survey was conducted in the respective country.</td>
</tr>
<tr>
<td>Corporatist</td>
<td>Siaroff 1999</td>
<td>Coded 1 (=corporatist) if one-half SD above the mean or higher on Siaroff’s integration score; 0 if otherwise. ($\bar{X} = 3.50; \sigma_X = 0.49$)</td>
</tr>
<tr>
<td>Pluralist</td>
<td>Siaroff 1999</td>
<td>Coded 1 (=corporatist) if one-half SD below the mean or lower on Siaroff’s integration score; 0 if otherwise. ($\bar{X} = 3.50; \sigma_X = 0.49$)</td>
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### Appendix II: Coding of Variables Used in Chapter 7

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<thead>
<tr>
<th>Variable name</th>
<th>Data source and question wording</th>
<th>Coding</th>
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<tr>
<td>Environmental Regime Stringency</td>
<td>‘The stringency of overall environmental regulation in your country is ...’</td>
<td>1 = lax compared to most other countries, 7 = among the world’s most stringent</td>
</tr>
<tr>
<td>Source: World Economic Forum 2002</td>
<td></td>
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</tbody>
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**Principal component factors for environmental regime stringency:**

**Variables:**

- **Stringency of Individual regulations (Air pollution, water pollution, toxic waste, chemical waste)**
  - ‘The stringency of [Air pollution / Water pollution / Toxic waste / Chemical waste] regulation in your country is ...’
  - Source: World Economic Forum 2002

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<table>
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<tr>
<th></th>
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<tr>
<td>RSSA</td>
<td>Stringency of</td>
<td>Air pollution</td>
<td></td>
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<tr>
<td>RSSW</td>
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<td>Water pollution</td>
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<td>RSSTW</td>
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<td>Toxic waste</td>
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<td>RSSC</td>
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1 factor retained

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<th>Variable</th>
<th>Factor Loadings</th>
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<tbody>
<tr>
<td>RSSA</td>
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<td>RSSW</td>
<td>0.99527</td>
<td>0.00944</td>
</tr>
<tr>
<td>RSSTW</td>
<td>0.99697</td>
<td>0.00605</td>
</tr>
<tr>
<td>RSSC</td>
<td>0.99649</td>
<td>0.00702</td>
</tr>
</tbody>
</table>

Scoring Coefficients (based on unrotated factors)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
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<tbody>
<tr>
<td>RSSA</td>
<td>0.25071</td>
</tr>
<tr>
<td>RSSW</td>
<td>0.25093</td>
</tr>
<tr>
<td>RSSTW</td>
<td>0.25136</td>
</tr>
<tr>
<td>RSSC</td>
<td>0.25124</td>
</tr>
</tbody>
</table>

**Salience of the environment**

Percentages of (quasi-) sentences grouped into 'environmental protection' as one of 56 policy areas. Because of the different length of documents, the number of (quasi-) sentences in each category is standardized taking the total number of (quasi-) sentences in the re-

Preservation of countryside, forests, etc.; general preservation of natural resources against selfish interests; proper use of national parks; soil banks, etc; environmental improvement.
spective documents as a base. In the data set each of these categories is a variable that represents the percentage.

Source: Manifesto Research Group (Budge et al., 2001).

Political Parties included in computation of country scores for environmental salience
(Source: Budge et al., 2001, Appendix I)

Australia

AUSTRALIAN LABOUR PARTY
AUSTRALIAN DEMOCRATS
LIBERAL PARTY OF AUSTRALIA
NATIONAL PARTY OF AUSTRALIA

Austria

DIE GRÜNE ALTERNATIVE (GREEN ALTERNATIVE)
SOZIALDEMOKRATISCHE PARTEI ÖSTERREICHS
(AUSTRIAN SOCIAL DEMOCRATIC PARTY)
FREIHEITLICHE PARTEI ÖSTERREICHS (AUSTRIAN FREEDOM PARTY) IN 1956; RENAMED: DIE FREIHEITLICHEN (FREEDOM MOVEMENT) IN 1995 LIBERALES FORUM (LIBERAL FORUM)
ÖSTERREICHISCHE VOLKSPARTEI (AUSTRIAN PEOPLE’S PARTY)

Belgium

ÉCOLOGISTES CONFEDERES POUR L’ORGANISATION DE LUTTES ORIGINALES (FRANCOPHONE ECOLOGISTS)
ANDERS GAAN LEVEN (LIVE DIFFERENTLY - FLEMISH-SPEAKING ECOLOGISTS)
SOCIALISTISCHE PARTIJ (FLEMISH SOCIALIST PARTY)
PARTI SOCIALISTE (FRANCOPHONE SOCIALIST PARTY)
VLAAMSE LIBERALEN EN DEMOKRATEN (FLEMISH LIBERALS AND DEMOCRATS)
PARTI REFORMATEUR LIBERAL (FRANCOPHONE LIBE-
Canada

NEW DEMOCRATIC PARTY
LIBERAL PARTY OF CANADA
PROGRESSIVE CONSERVATIVE PARTY
REFORM PARTY OF CANADA
BLOC QUÉBÉCOIS

Denmark

ENHEDSLISTEN—DE RØD-GRØNNE (RED-GREEN UNITY LIST) / VALFORBUND ENHEDSLISTEN: DE GRØNNE,
SOLIDARISK ALTERNATIV, INVENDRERLISTEN,
CHRISTIANIALISTEN, ARBEIDSLØSHEIDSPARTEIT,
KÆRLIGHEDSPARTIET, MILJØPARTI
SOCIALISTISK FOLKEPARTI (SOCIALIST PEOPLE’S PARTY)
CENTRUM-DEMOKRATERNE (CENTRE DEMOCRATS)
KRISTELIGT FOLKEPARTI (CHRISTIAN PEOPLE’S PARTY)
KONSERVATIVE FOLKEPARTI (CONSERVATIVE PEOPLE’S PARTY)
SOCIALDEMOKRATIET (SOCIAL DEMOCRATIC PARTY)
DET RADIKALE VENSTRE (RADICAL PARTY)
VENSTRE (LIBERALS)
FP FREMKRITDSPARTIET (PROGRESS PARTY)

Finland

VIHREÄ LIITTO (GREEN UNION)
VASEMISTOLIITTO (LEFT WING ALLIANCE)
SUOMEN SOSIALIDEMOKRAATTINEN PUOLUE (FINNISH SOCIAL DEMOCRATS)
LIBERAALINEN KANSANPUOLUE (LIBERAL PEOPLE’S PARTY)
NUORSUOMALAINEN PUOLUE (PROGRESSIVE FINNISH PARTY, ALSO KNOWN AS YOUNG FINNS)
SUOMEN KRISTILLINEN LIITTO (FINNISH CHRISTIAN UNION)
KANSALLINEN KOKOOMUS (NATIONAL COALITION)
SUOMEN KESKUSTA (FINNISH CENTRE) IN 1988
SOUMEN MAASEUDUN PUOLUE (FINNISH RURAL PARTY)
RUOTSALAINEN KANSANPUOLUE/ SVENSKA FOLKPARTIET (SWEDISH PEOPLE’S PARTY)

France

ÉCOLOGISTES (GREENS) IN 1997: LES VERTS
GE GENERATION ÉCOLOGIE (ECOLOGY GENERATION)
PARTI COMMUNISTE FRANÇAIS (FRENCH COMMUNIST PARTY)
PARTI SOCIALISTE (SOCIALIST PARTY)
UDF UNION POUR LA DEMOCRATIE FRANÇAISE (UNION FOR FRENCH DEMOCRACY)
RPR RASSEMBLEMENT POUR LA REPUBLIQUE (RALLY FOR THE REPUBLIC)
FN FRONT NATIONAL (NATIONAL FRONT)

Germany

90-GREENS BÜNDNIS‘90/DIE GRÜNEN (ALLIANCE’90/GREENS)
PDS PARTEI DES DEMOKRATISCHEN SOZIALISMUS (PARTY OF DEMOCRATIC SOCIALISM)
SPD SOZIALDEMOKRATISCHE PARTEI DEUTSCHLANDS (SOCIAL DEMOCRATIC PARTY OF GERMANY)
FDP FREIE DEMOKRATISCHE PARTEI (FREE DEMOCRATIC PARTY)
CDU/CSU CHRISTLICH-DEMOKRATISCHE UNION/CHRISTLICH-SOZIALE UNION (CHRISTIAN DEMOCRATIC
UNION/CHRISTIAN SOCIAL UNION

Greece
- KOMMOUNISTIKO KOMMA ELLADAS (COMMUNIST PARTY OF GREECE)
- SYNASPISMOS TIS ARISTERAS KAI TIS PROODOU (PROGRESSIVE LEFT COALITION)
- PANHELLENIO SOCIALISTIKO KINEMA (PANHELLENIC SOCIALIST MOVEMENT)
- DIMOKRATIKI KINONIKI KINEMA (DEMOCRATIC SOCIAL MOVEMENT)
- NEA DIMOKRATIA (NEW DEMOCRACY)
- POLITIKI ANIXI (POLITICAL SPRING)

Iceland
- ALþHYDUBANDALAGID (PEOPLE’S ALLIANCE)
- ALþHYÐUFLOKKURINN (SOCIAL DEMOCRATIC PARTY)
- ÞJÓÐVAKI (AWAKENING OF THE NATION)
- SJÁLFSTÆDISFLOKKURINN (INDEPENDENCE PARTY)
- FRAMSÓKNARFLOKKURINN (PROGRESSIVE PARTY)
- SAMTÖK UM KVENNALISTA (WOMEN’S ALLIANCE)

Ireland
- ECOLOGY PARTY/GREEN PARTY/COMHAONTAS GLAS DEMOCRATIC LEFT PARTY
- PÁIRTI LUCHT OIBRE (LABOUR PARTY)
- PROGRESSIVE DEMOCRATS
- FINE GAEL (FAMILIY OF THE IRISH)
- FIANNA FÁIL (SOLDIERS OF DESTINY)

Israel
- HAZIT DEMOCRATIT LE SHALOM VE-SHIVAYON (DEMOCRATIC FRONT FOR PEACE AND EQUALITY)
- SINCE 1996: HADASH/BALAD (DEMOCRATIC NATIONAL PARTY)
- MIFLEGET HA’AVODA HA’ISRAELIT (ISRAELI LABOUR PARTY)
- HA’DERECH HA’SHLISHIT (THE THIRD WAY)
- YISRAEL BA-ALIYA (ISRAEL FOR IMMIGRATION)
- MIFLAGA DATIT LEUMIT (NATIONAL RELIGIOUS
PARTY)
SHOMREI TORAH SEPHARDIM (SEPHARDI TORAH
GUARDIANS)
YAHADUT HATORAH
TEHIYA TENUAT HETEHIYA (RENAISSANCE MOVE-
MENT)
HATENUA LEHITHADASHOT ZIONIT VEVILTI MIFLAG-
TAIM (CROSSROADS—NON-ALIGNED MOVEMENT FOR
ZIONIST RENEWAL)
MOLEDET (HOMELAND); MERGER WITH TEHIYA IN 1996
LIKUD (UNION)
HARESHIMA HA’ARAVIT HAMEUCHEDET (UNITED
ARBAR LIST)

Italy
FEDERAZIONE DEI LISTE VERDI (GREEN FEDERATION)
RIFONDAZIONE COMUNISTA (NEWLY FOUNDED COM-
MUNISTS)
PARTITO DEMOCRATICO DELLA SINISTRA (DEMOC-
RATIC PARTY OF THE LEFT)
PARTITO RADICALE (RADICAL PARTY); RENAMED:
LISTA PANELLA IN 1992; LISTA PANELLA-RIFORMATORI
IN 1994 LISTA SGARBI-PANELLA IN 1996
PARTITO SOCIALISTA ITALIANO (SOCIALIST PARTY)
RINNOVAMENTO ITALIANO (ITALIAN RENEWAL)
PARTITO SOCIALISTA DEMOCRATICO ITALIANO (ITA-
LIAN DEMOCRATIC SOCIALIST PARTY)
PARTITO REPUBBLICANO ITALIANO (REPUBLICAN
PARTY)
PARTITO LIBERALE ITALIANO (LIBERAL PARTY)
DEMOCRAZIA CRISTIANA (CHRISTIAN DEMOCRATS);
RENAMED: PPI PARTIDO POPULARE ITALIANO IN 1994
(ITALIAN POPULAR PARTY)
CENTRO CRISTIANO DEMOCRATICO (CHRISTIAN DE-
MOCRATIC CENTRE)
PATTO PER L'ITALIA (PACT FOR ITALY)
ALLEANZA DEMOCRATICA (DEMOCRATIC ALLIANCE)
FORZA ITALIA (GO ITALY)
MOVIMENTO SOCIALE ITALIANO-DESTRA NAZIONALE
(ITALIAN SOCIAL MOVEMENT-RIGHT NATIONAL); RENAMED: AN ALLEANZA NAZIONALE (NATIONAL ALLIANCE) IN 1994
LA LEGA NORD (NORTHERN LEAGUE)
LA RETE/MOVIMENTO PER LA DEMOCRAZIA (THE NETWORK/MOVEMENT FOR DEMOCRACY)

Japan
NIHON KYOSAN-TO (JAPAN COMMUNIST PARTY)
NIHON SHAKAI-TO (JAPAN SOCIALIST PARTY)
MINSHU-SHAKAI-TO (DEMOCRATIC SOCIALIST PARTY)
SHAMINREN (SOCIAL DEMOCRATIC FEDERATION)
KOMEI-TO (CLEAN GOVERNMENT PARTY)
JIYU-MINSHU-TO (LIBERAL DEMOCRATIC PARTY)
SHINSEI-TO (JAPAN RENEWAL PARTY)
SINSHIN (NEW FRONTIER PARTY)
MINSHU (DEMOCRATIC PARTY OF JAPAN)
SAKIGAKE (NEW PARTY)
NIHON SHIN-TO (JAPAN NEW PARTY)

Luxembourg
GRENG LÊSCHT EKOLOGESCH INITIATIV – DI GRÊNG ALTERNATIV (GREEN LEFT ECOLOGICAL INITIATIVE – GREEN ALTERNATIVE)
PARTI OUVRIER SOCIALISTE LUXEMBOURGEOIS / LETZEBURGER SOZIALISTESCH ARBEITERPARTEI (SOCIALIST WORKERS’ PARTY)
GROUPEMENT DÉMOCRATIQUE IN 1954 (DEMOCRATIC GROUP) RENAMED: PD/DP PARTI DÉMOCRATIQUE / DEMOKRATESCH PARTEI (DEMOCRATIC PARTY)
PARTI CHRÉTIEN SOCIAL/CHRÊSCHTLECH SOZIAL VOLLEKSPARTEI (CHRISTIAN SOCIAL PEOPLE’S PARTY)
AKTIOUNSKOMITEE FIR DEMOKRATIE A RENTEGERECHTEGKEET (ACTION COMMITTEE FOR DEMOCRACY AND PENSION JUSTICE)
<table>
<thead>
<tr>
<th>Country</th>
<th>Parties</th>
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<tbody>
<tr>
<td>Netherlands</td>
<td>GROEN LINKS (GREEN LEFT)  PARTII VAN DE ARBEID (LABOUR PARTY)</td>
</tr>
<tr>
<td></td>
<td>DEMOCRATEN'66 (DEMOCRATS'66) VELKSPARTIJ VOOR VRIJHEID EN DEMOCRATIE (PEOPLE'S PARTY FOR FREEDOM AND DEMOCRACY)</td>
</tr>
<tr>
<td></td>
<td>CHRISTEN-DEMOCRATISCH APPEL (CHRISTIAN DEMOCRATIC APPEAL)</td>
</tr>
<tr>
<td>New Zealand</td>
<td>LABOUR PARTY ALLIANCE NATIONAL PARTY NEW ZEALAND FIRST PARTY SOCIAL CREDIT/DEMOCRATIC PARTY</td>
</tr>
<tr>
<td>Norway</td>
<td>SOSIALISTISK VENSTREPARTI (SOCIALIST LEFT PARTY)</td>
</tr>
<tr>
<td></td>
<td>DET NORSKE ARBEIDERPARTI (NORWEGIAN LABOUR PARTY)</td>
</tr>
<tr>
<td></td>
<td>VENSTRE (LIBERAL PARTY) KRISTELIG FOLKEPARTI (CHRISTIAN PEOPLE'S PARTY)</td>
</tr>
<tr>
<td></td>
<td>H HØYRE (CONSERVATIVE PARTY) SENTERPARTIET (CENTRE PARTY)</td>
</tr>
<tr>
<td></td>
<td>FREMSKRITTPARTIET (PROGRESS PARTY)</td>
</tr>
<tr>
<td>Portugal</td>
<td>COLIGAÇÃO DEMOCRÁTICO UNITÁRIA (UNIFIED DEMOCRATIC COALITION)</td>
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<tr>
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<td>PARTIDO SOCIALISTA PORTUGUÊSA (PORTUGUESE SOCIALIST PARTY)</td>
</tr>
<tr>
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<td>PARTIDO SOCIAL DEMOCRÁTA (SOCIAL DEMOCRATIC PARTY)</td>
</tr>
<tr>
<td></td>
<td>PARTIDO DO CENTRO DEMOCRÁTICO SOCIAL (CENTRE SOCIAL DEMOCRATS); RENAMED: PARTIDO POPULAR (POPULAR PARTY)</td>
</tr>
<tr>
<td></td>
<td>PARTIDO DE SOLIDARIEDADE NACIONAL (NATIONAL SOLIDARITY PARTY)</td>
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</tbody>
</table>
Spain
IZQUIERDA UNIDA (UNITED LEFT)
PARTIDO SOCIALISTA OBRERO ESPAÑOL (SPANISH SOCIALIST WORKERS’ PARTY)
CENTRÓ DEMOCRÁTICO Y SOCIAL (CENTRE DEMOCRATS)
PARTIDO POPULAR (POPULAR PARTY)
CONVERGÈNCIA I UNIÓ (CONVERGENCE AND UNION)
PARTIDO NACIONALITA VASCO /EUSKADI ALBERTI JETZALE (BASQUE NATIONALIST PARTY)
EUSKO ALKARTASUNA (BASQUE SOLIDARITY)
PARTIDO ARGONÉS REGIONALISTA (ARAGONESE REGIONALIST PARTY)
ESQUERRA REPUBLICANA DE CATALUNYA (CATALAN REPUBLICAN LEFT)

Sweden
MILJÖPARTIET DE GRÖNA (GREEN ECOLOGY PARTY)
VÄNSTERPARTIET (LEFT PARTY)
SOCIALDEMONCRATISTISKA ARBETAREPARTIET (SOCIAL DEMOCRATIC LABOUR PARTY)
FOLKPARTIET LIBERALERNA (LIBERAL PEOPLE’S PARTY)
KRISTDEMOKRATISKA SAMHÄLLSPARTIET (CHRISTIAN DEMOCRATIC COMMUNITY PARTY)
MODERATA SAMLINGSPARTIET (MODERATE COALITION PARTY)
CENTERPARTIET (CENTRE PARTY)
NY DEMOKRATI (NEW DEMOCRACY)

Switzerland
GRÜNE PARTEI DER SCHWEIZ / PARTI ÉCOLOGISTE SUISSE (GREEN PARTY OF SWITZERLAND)
SOZIALDEMONKRATISCHE PARTEI DER SCHWEIZ / PARTI SOCIALISTE SUISSE (SOCIAL DEMOCRATIC PARTY)
LANDESRING DER UNABHÄNGIGEN / ALLIANCE DES INDEPENDANTS (INDEPENDENTS’ ALLIANCE)
FREISINNIG-DEMOKRATISCHE PARTEI DER SCHWEIZ/ PARTI RADICAL-DÉMOCRATIQUE SUISSE (RADICAL
DEMOCRATIC PARTY

CHRISTLICH DEMOKRATISCHE VÖLKSPARTEI DER SCHWEIZ / PARTI DÉMOCRAT-CHRÉTIEN SUISSE (CHRISTIAN DEMOCRATIC PEOPLE’S PARTY)

EVANGELISCHE VÖLKSPARTEI DER SCHWEIZ/ PARTI POPULAIRE EVANGÉLIQUE SUISSE (PROTESTANT PEOPLES' PARTY)

NATIONALE AKTION FÜR VOLK UND HEIMAT/ACTION NATIONALE POUR LE PEUPLE ET LA PATRIE (NATIONAL ACTION FOR PEOPLE AND FATHERLAND); RENAMED: SD SCHWEIZER DEMOKRATEN/ DÉMOCRATES SUISSES (SWISS DEMOCRATS) IN 1991

SCHWEIZERISCHE VÖLKSPARTEI / UNION DÉMOCRATIQUE DU CENTRE (SWISS PEOPLE’S PARTY)

SCHWEIZER AUTO PARTEI/PARTI AUTOMOBILISTE SUISSE (SWISS MOTORISTS’ PARTY); RENAMED: FPS FREIHEITSPARTEI DER SCHWEIZ (FREEDOM PARTY OF SWITZERLAND)

Turkey

CUMHURIYET HALK PARTISI (REPUBLICAN PEOPLE’S PARTY)

SOSYAL DEMOKRAT HALÇI PARTI (SOCIAL DEMOCRATIC POPULIST PARTY)

DEMOKRATIK SOL PARTI (DEMOCRATIC LEFT PARTY)

ANAVATAN PARTISI (MOTHERLAND PARTY)

DOGRU YOL PARTISI (TRUE PATH PARTY)

REFAH PARTISI (WELFARE PARTY)

United Kingdom

LABOUR PARTY

LIBERAL DEMOCRATIC PARTY

CONSERVATIVE PARTY

United States

DEMOCRATIC PARTY

REPUBLICAN PARTY
Economic voting: Incumbency

Votes cast for the following parties or candidates are coded as votes for the incumbent government:

Australia 1996
AUSTRALIAN LABOR PARTY

Belgium 1999 (Flanders)
SOCIALISTISCHE PARTIJ
PARTI SOCIAL CHRETIEN

Belgium 1999 (Walloonia)
CHRISTELIJKE VOLKSPARTIJ
PARTI SOCIALISTE

Canada 1997
LIBERAL PARTY

Czech Republic 1996
CHRISTIAN DEMOCRATIC UNION - CZECH PEOPLE'S PARTY
CIVIC DEMOCRATIC ALLIANCE
CIVIC DEMOCRATIC PARTY

Denmark 1998
RADICAL LIBERAL
CENTRE DEMOCRAT

Germany 1998
CHRISTIAN DEMOCRATIC PARTY
CHRISTAIN SOCIAL UNION IN BAVARIA
FREE DEMOCRATIC PARTY

Hungary 1998
HUNGARIAN SOCIALIST PARTY
ALLIANCE OF FREE DEMOCRATS

Iceland 1999
PROGRESSIVE PARTY
INDEPENDENCE PARTY

Israel 1996
AVODA
MERETZ
YAHADUT HATORA
Japan 1996          LIBERAL DEMOCRATIC PARTY
Korea 2000          GRAND NATIONAL PARTY
Lithuania 1997      A. PAULAUSKAS*
Mexico 1997         INSTITUTIONAL REVOLUTIONARY PARTY
Mexico 2000         ALLIANCE FOR CHANGE
Netherlands 1998    LABOR PARTY
                     PEOPLE'S PARTY FOR FREEDOM AND DEMOCRACY
                     DEMOCRATS 66
New Zealand 1996    NATIONAL PARTY
Norway 1997         LABOUR PARTY
Poland 1997         DEMOCRATIC LEFT ALLIANCE
                     POLISH PEASANT PARTY
Portugal 2002       SOCIALIST PARTY
Slovenia 1996       LIBERAL DEMOCRATIC PARTY
Spain 1996          PARTIDO SOCIALISTA OBRERO ESPANOL
Spain 2000          PARTIDO POPULAR
Sweden 1998         SWEDEN'S SOCIAL DEMOCRATIC WORKER'S PARTY
Switzerland 1999    RADICAL DEMOCRATIC PARTY
                     CHRISTIAN DEMOCRATS
                     SOCIAL DEMOCRATS
                     SWISS PEOPLE'S PARTY
United Kingdom 1997  CONSERVATIVE PARTY

United States 1996  DEMOCRATIC PARTY

Economic voting:
Citizens’ perceptions of economic performance

'Would you say that over the past twelve months, the state of the economy in [country] has gotten better, stayed about the same or gotten worse?'

Source: Comparative Study of Electoral Systems (CSES), module I.


*Presidential election

1. GOTTEN BETTER
3. STAYED THE SAME
5. GOTTEN WORSE
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business share in R&amp;D</strong></td>
<td>Source: OECD’s Main Science and Technology Indicators (OECD 2004, table A3.1)</td>
<td>R&amp;D expenditure by source of funds (percentages)</td>
</tr>
<tr>
<td><strong>Models of democracy</strong></td>
<td>Lijphart 1999; column 3 of Appendix A</td>
<td>1971-1996 values of the majoritarian-consensus scale’s executive-parties dimension</td>
</tr>
<tr>
<td><strong>Corporatism</strong></td>
<td>Source: Siaroff 1999, table 5.</td>
<td>Integration scores for Mid-1990s</td>
</tr>
<tr>
<td><strong>Economic Freedom</strong></td>
<td>Gwartney et al. 2001</td>
<td>The index measures the degree to which the policies and institutions of countries are supportive of economic freedom, defined as personal choice, voluntary exchange, freedom to compete, and security of privately owned property. Thirty-eight components and sub-components are used to construct a summary index and to measure the degree of economic freedom in five areas: (1) size of government; (2) legal structure and protection of property rights; (3) access to sound money; (4) international exchange; and (5) regulation. Data retrieved from &lt;www.freetheworld.com&gt;.</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>GDP per capita</th>
<th>Source: WEF 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>The WEF calculated per capita GDP adjusted for purchasing power across countries by taking the 1999 GDP per capita (PPP) figures for all countries from the World Bank's development Indicators 200 and then multiplying each country's figure by the real per capita growth rate from 1999 to 2000. These values were in turn scaled by the 1999 to 2000 US GDP implicit price deflator, as calculate from data posted by the US department of Commerce's Bureau of Economic Analysis available at <a href="http://www.bea.gov/bea/dn/nipaweb/Index.html">http://www.bea.gov/bea/dn/nipaweb/Index.html</a></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Political Crisis</th>
<th>Source: Own assessments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coded 1 for countries that experienced an event or period of non-trivial constitutional change or political violence including war during the time period from 1980 to 2001.</td>
<td></td>
</tr>
</tbody>
</table>
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