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Business Power and Democratic Politics

This book's main finding can be summarized in one sentence: the more the public cares about an issue, the less managerial organizations will be able to exercise disproportionate influence over the rules governing that issue. In other words, business power goes down as political salience goes up. So why spend an entire book developing an argument that could be communicated so succinctly? First, and most importantly, this fact has a significant impact on the lives of people around the world who live in democracies. The promise of popular sovereignty is only realized when politicians think voters care about issues and inform themselves about those issues. A second, related point also motivates this book: the explanatory power of this simple truth has been underestimated, even by many of those who study politics for a living.

Most of this book has dealt with a policy area of profound political importance for how capitalist systems operate: the rules governing corporate control. Some regimes of corporate control treat companies as mere commodities, free to be bought and sold at will by owners in search of the highest rate of return on their investment. Others, by contrast, view the company as a place where many important political and distributive compromises of capitalist democracy are struck. In these systems, rules restrain the buying and selling of companies on the assumption that a company is the site of many negotiated deals between management, labor, and other stakeholders, and that frequent and unpredictable changes of ownership challenge these firm-level bargains. These differences are fundamental to the distinction between different varieties of capitalism.

However, voters in most countries do not care about the rules of corporate control per se, although they care a lot about their observable consequences. And in this domain, organized managers have been extremely successful in advancing their preferred policy agenda and thwarting the agendas of their opponents, be they hedge funds or neoliberal governments. Corporate control is an area in which political parties play little role. Debates between scholars about whether it is parties of the right or of the left that are more likely to support patient capital are simply misguided. Most of the time, political parties do not matter in the regulation of corporate control.

Managerial groups have tools and resources that allow them to dominate fights in low salience domains. It is costly for politicians or journalists to acquire expertise about complex policy issues, and low public concern about such issues reduces the incentive of either political parties or of news outlets to expend the resources to develop that expertise. Managers, on the other hand, do have expertise in this area, and they enjoy considerable deference as a result of this expertise. Politicians do not want to risk messing up the economy unless there is a big political reward for doing so. They are therefore likely to respond favorably to the lobbying demands of managerial organizations for changes in legal proposals. Alternatively, politicians may simply delegate the details of complex governance issues to informal groups in which managers are well-represented. These informal groups may write rules that are incorporated into law, or their proposed self-regulatory codes may preempt the making of law altogether, resulting in informal institutionalization. Either way, these are avenues for managers to influence the rules of collective governance that depend on their expertise and the deference of politicians to that expertise.

This asymmetry of expertise and the cost of redressing it structure the quiet politics of low salience issues in other ways. Journalists, too, defer to managerial expertise because they often lack their own sources of knowledge about a policy area. Unlike politicians, journalists do not defer to managerial organizations because of their concerns about hurting the economy. But they do need to explain complex topics to readers simply, and so they are prone to rely on the metaphors and analogies supplied by business leaders. This allows businesses to influence the framing of political debates when they do occasionally receive press coverage. As we saw in both the Dutch and the French press coverage of the politics of corporate control, managers were successful in getting their frames parroted in the press.

These tools of influence are fragile only because they are a function of public inattention. When citizens do not care about an issue and are not well-informed about it, the expertise of managers and the deference shown to them by politicians and the press are important. Yet the value of that expertise as a political resource declines the more the public holds political parties accountable for policy outcomes. Politicians do not want to disrupt the economy on whose performance they remain dependent for reelection, but neither do they want to risk the wrath of voters when voters are mobilized on a political issue. Journalists, less dependent than politicians on the state of the economy and therefore less beholden to managerial expertise, will quickly seek other sources of information if it becomes clear that the public is interested in a policy issue. What the changing value of salience does is convince politicians and the press to invest in developing their own, alternative sources of information. That makes them less dependent on managerial organizations, which makes managerial organizations less influential than under conditions of low political salience.

One way that the public has come to care about issues of corporate governance is through accounting and pay scandals. The Enron scandal is the best-known of these, and I discussed the effect of Enron on American politics of executive pay in Chapter 6. Scandals are particularly bad news for managerial organizations because they not only make an issue highly salient; they also undercut the claims of privileged expertise on which business so often depends for its lobbying capacity. First, events such as Enron can draw the public's attention to an issue and thereby reorient the interests of politicians in such an area. This is what Frank Baumgartner and Bryan Jones call issue intrusion, when a previously inert policy area forces its way onto the political radar of the public.[1] Second, accounting scandals and market crashes highlight failures of business foresight and the potential for conflicts of interest. These failures lead politicians to rely less on business for their information, thereby undercutting one great advantage of managers under low salience politics. Most business organizations maintain formidable lobbying operations, but those operations are as much dependent on their reputation for expertise as on their direct expenditure of money. When this expertise is undermined, the influence of managers on public policy is likely to suffer.

The theory of quiet politics implies that the political power of organized business is insensitive to differences among the political institutions of advanced democracies. To put that point more provocatively, this argument suggests that the power of business in the United States is not a function of the large role of money in politics in the American political system. Institutions may influence what sort of things managers want from politics (i.e., business preferences), but they matter little in determining managers' ability to get what they want from politics (business power).

Previous chapters have considered how variations in political salience and in the character of institutional governance – formal or informal – influence the politics of institutional change and stability in the domain of corporate control. In this chapter I extend the analysis to speculate about how variations in political salience and institutional formality affect politics more broadly and how their interaction affects business power in particular. The intersection of the domains of salience and formality creates a governance space whose different quadrants feature very different political interactions and power resources. This governance space is the subject of the next section. The chapter then uses the governance space to reevaluate the current state of the literature on the scope and limits of business power in democracies. This discussion of how salience and institutional formality influences politics also yields useful implications for debates over the character of institutional change in politics and public policy. A final section reflects on how the recent international financial crisis may affect managerial influence in politics in the new, postcrisis environment.

[1] Jones and Baumgartner (2005).

Salience, Institutional Formality, and the Governance Space

Many current understandings of politics are premised on two questionable assumptions. The first is that politics in democracies takes place through the action of political parties, which take policy positions with an eye to what they think their potential voters want. The second is that all the important decisions about institutional rules are made in legislative arenas. This book has shown that neither of these assumptions accurately characterizes the politics of corporate control. Parties rarely matter in this domain because voters do not care about the issue enough for parties to invest in taking hard positions on it. Moreover, the discussions over institutional alternatives for regimes of corporate governance often take place in nonlegislative and nonregulatory arenas. Sometimes, as in France and Germany during the late 1990s, the real institutional decision makers about regimes of corporate control were actually private blockholders whose opinions showed little evidence of influence by public policy makers. Other times, as in Japan in 2004–2005, new rules of corporate control were drawn up in para-public forums in which managerial interests were well-represented, and in which the opponents to managerial preferences were unrepresented. When rules are made in arenas that are neither legislative nor regulatory, I refer to these as sites of informal institutionalization.[2]

Theories of politics that ignore these distinctions risk assuming that the world of political struggle is reducible to the dynamics we observe in formal institutional arenas when issues have high political salience. As we saw in Chapter 6 in the case of executive remuneration, politics looks very different once voters start paying attention to and caring about an issue. This insight allows us to build on a point emphasized by an earlier generation of political scientists, such as James Q. Wilson and Theodore Lowi: different sorts of policies create different sorts of politics.[3] Wilson focused narrowly on *regulatory* politics and Lowi more broadly on different areas of *policy making*, but both excluded the realm of informal institutions. If many areas of contemporary political struggle actually take place through informal institutions, then this is a serious oversight. We expect modes of political interaction to vary across the possible combinations of salience and formality of institutional governance. For example, where political battles take place through formal institutions under conditions of high political salience, as in some areas of fiscal policy, we expect

[2] Thus, this definition of informal institutionalization allows for such institutions to be interpreted and enforced by public authorities (e.g., courts), as in the case of the Japanese Corporate Value Report. Where rules are made in informal arenas but enforceable in formal ones, I argue that the interest of political scientists should be focused more on the locus of rule making than on the mechanism of rule enforcement. Both are, of course, important for social outcomes. But, if rules are indeed sticky, then it is the origin of their development and the arena in which they are recast that should most interest us. I owe this clarification to comments by Kathleen Thelen and Elisabetta Gualmini.

[3] Wilson (1980), Lowi (1964).

TABLE 7.1. *Political Salience, Institutional Formality, and the Governance Space*

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

partisan contestation. Where political battles instead take place through informal institutions under conditions of low political salience, as in the issue area of corporate control, this book has shown we should expect private interest governance led by business organizations. Table 7.1 arrays the four potential intersections between salience and formality, which I call the governance space. Each quadrant of the governance space features a characteristic mode of political interaction. These four modes of political interaction involve different arenas of conflict, different sources of political advantage, and different central actors.

In the northeast quadrant of the space, where rules are laws and voters are interested in the outcomes, partisan contestation is the likely mode of political interaction. For high salience issues such as taxes and welfare spending, the rules that matter are formally inscribed as laws, and political parties fight over them in legislatures and through periodic electoral competition. The arena of struggle is the parliament as well as the court of public opinion, as parties battle to secure support in the electorate to be able to pass their preferred laws. The valuable power resources in this quadrant are legislative seats and public support. And the central actors are political parties, which are designed both to build electoral programs and facilitate the passage of laws. The importance of this quadrant is hard to overstate – it is where the rubber meets the road in democracy and where most of the titanic political clashes take place. Yet, much of the regulation of democratic capitalism happens in the other quadrants, and the characteristics of politics and policy change in those quadrants are likely to be quite different.

Corporate control, as we saw in earlier chapters of this book, is in most countries a low salience affair governed primarily by informal rules. That is to say, it is an area characterized by private interest governance. Managerial organizations tend to dominate in this quadrant because the arena of conflict often comprises a group of representatives drawn disproportionately from managerial interests. Thus, the outcome is simply derivative of the arena, in which managers are always the elephant in the room. Expertise is a preeminent power resource because of the deference extended to managers by politicians and reporters as a result of their expert knowledge. This deference is often what keeps informal institutionalization the primary mode of governance. The central actors are those with the resources and interest to acquire this information, namely large company representatives: their managers, their associations, and their blockholders. The concentrated interest of senior managers in the content of formal regulation in this area, combined with their informational advantage vis-à-vis politicians, has led other scholars to acknowledge the likelihood that business interests are likely to prevail even when regulation is formal.[4] We have seen that institutional informality powerfully reinforces this tendency by further weakening the opponents of the institutional incumbents in private interest governance.

How does low salience politics vary between conditions of informal and formal institutionalization? In other words, what is the effect of moving from the southwest to the southeast quadrant of Table 7.1? From the perspective of social actors, moving from informal to formal governance under low salience has one advantage and one cost. The advantage is that formalizing negotiations through law may help to reduce problems of coordination and collective action.[5] Government bureaucracies gain in strength in this quadrant because they can become arbiters of disagreement among competing social actors. The ability to convince politicians and bureaucrats – lobbying capacity – is therefore even more important here than in the southwest quadrant, where much negotiation happens beyond the reach of direct state authority. Because formal governance is happening under conditions of low salience in this quadrant, it has little to offer in terms of an electoral payoff. Politicians in the legislature are therefore content to delegate governance to bureaucracies. Social actors know this, and they work to establish ongoing ties with the bureaucracy in charge of regulating them. Expertise is the important power resource within bureaucratic policy networks, since most negotiations still take place out of the public eye. State bureaucracies prioritize the input of social actors by the expertise they bring to the table. Interest associations develop expertise, long-term ties with each other, and with state officials in the policy domains in which they are interested. Thus, the characteristic mode of political interaction in this quadrant is negotiation among the members of policy networks organized around bureaucracies.[6]

An illustrative example of low salience formal politics is the making of vocational training policy in eastern Germany since German unification. Ever since the transition to capitalism, eastern German companies have not been able to offer enough apprenticeship places to absorb the number of would-be apprentices on the eastern German youth labor market. Much of the onus for experimenting with policies to convince these firms to engage in apprenticeship training has therefore fallen on eastern German state governments. Unlike western Germany, where many parts of firm-based training are devolved to corporatist negotiations between unions and employers alone, governments are deeply involved in the making of all aspects of vocational training in eastern

[4] Wilson (1980), Gormley (1986).

[5] Knight (1992).

[6] This quadrant of the governance space features not only the bureaucracy as the source of formal regulation, but also the courts. I concentrate in the remaining discussion on bureaucracies, but the point about expertise as an important power resource also holds, *mutatis mutandis*, for the case of courts.

Germany. In a comparison of several eastern German states, I showed in a previous book that employers' associations and unions in both states were involved in formal advisory bodies where they advocated the same sort of subsidy policies.[7] They converged in their policy preferences not because their interests were identical – they were not – but because both actors recognized that the best way to use state subsidy money was to target it at the firms that wanted to train but could not. The ties between these groups, and their credibility with state-level bureaucrats, were fundamentally a product of their ability to deliver expertise in a policy area. In a study of eastern German state-level economic governance, Stephen Padgett observed the same phenomenon: "a high level of policy expertise in most economic groups means that dialogue is constructed between policy specialists, rather than between policymaker and lobbyist. Technocratic exchange is largely independent of partisanship[.]"[8] Unlike in higher salience areas, where parties play a role in determining which policies get adopted because voters care about their policy positions, issues of low salience that are subject to primarily formal rule making are left to bureaucratic expertise. The influence of interest groups, including business groups, is in large part a product of their ability to bring expert analysis to the table, because that is the most relevant currency in convincing state bureaucrats.

In marked contrast, the quadrant combining high salience with informal institutions, located in the northwest part of the governance space, is a volatile political area because voters care about it but states do not directly intervene in rule making. Given high salience, it is difficult for the group with the most economic power – business – to capture issue domains lying in this quadrant. Voters care too much about the rules made in this area, which is what its high political salience denotes. Competing interest groups or associations are the likely actors in this quadrant. Only groups with claims to represent the important constituencies on either side of such issues have a plausible mandate to maintain private interest governance of this form. In most countries, the only groups with such claims are employers' associations and labor unions, which is why the characteristic mode of this quadrant is social partner bargaining. These social partners disagree on many points, but they both have an interest in limiting their conflicts in order to prevent state intervention. If the struggle actually moves to parliament, there is a risk the policy domain could be headed toward a permanently higher degree of formal regulation, with a consequent diminution of social partner influence.

The most noteworthy feature of high salience in combination with informal institutions is that it induces powerful private actors to compromise in order to avoid the possibility of unilaterally imposed state decrees. The tacit threat of state intervention changes the dynamic of negotiation, as Fritz Scharpf has observed.[9] The high salience of this area makes social partner bargaining

7 Culpepper (2003).
8 Padgett (1999: 161).
9 Scharpf (1997).

conflictual, as organizational leaders are more likely to play to their base than they are under low political salience. This is because the mass members of social organizations care about high salience issues and hold their leaders to account for their positions on them, just as they do for political parties. At the same time, though, interest associations have a shared interest in keeping the state out of their regulatory arena in order to preserve their own bargaining prerogatives.[10] Thus, there are two distinct arenas of conflict, which have contrasting logics. On the one hand, social partners hold hard-line positions and challenge each other in the court of public opinion, just as do political parties. On the other hand, they are often involved in iterated negotiations with each other, through the informal institutions they jointly govern. The public posturing of the social partners is disciplined by involvement in a repeated interaction with their opponents – and, crucially, with a shared set of interests in maintaining institutional informality. The power resources of this quadrant are therefore two: support in public opinion is a powerful weapon in trying to force concessions out of a partner, but the mutual dependence on each other to keep private governance out of state hands is a resource that always helps the weaker bargaining partner. Social partner bargaining is almost always characterized by a joint preference to keep the state out – for which both partners need each other to justify their governance of such a high salience area.

Many of the institutional reforms orchestrated through social pacts in Europe in the 1990s fell in the quadrant that combines high salience and informal institutions. Although these social pacts often involved representatives of the state, alongside employers' associations and unions, they generally resulted in institutions based on social partner agreement, rather than new laws. In other words, they generated new informal institutions. And most such deals were front-page news, the epitome of high political salience. For example, in their respective national negotiations that led to social pacts that reformed national wage setting, Irish and Italian business associations both wanted to establish new institutions of bargaining that would deliver wage restraint.[11] Facing weak governments and unions hobbled by high unemployment, these employers' associations were unquestionably the strongest actors in the negotiations over new bargaining institutions. Yet they were unable to impose their preferred institutional solution on unions because of their commitment to informal governance in cooperation with unions. In both cases, employers' associations and unions carried on battles simultaneously through the press and through private negotiations. They eventually came to agreements recognizing shared understandings about the character of the international economy and the role of bargained wage restraint in supporting the competitiveness of

[10] Some social partners – especially those whose bargaining capacity is weak – may have more to gain by state intervention than they lose in conceding their autonomy in bargaining. They may then be willing to accede to greater state intervention on a permanent basis. Interest groups are aware, however, that state intervention may bring with it unexpected consequences.

[11] Baccaro and Lim (2007).

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national companies. Once this common knowledge was established among the social partners, employers' associations were constrained by it because it tied them to shared assumptions about the nature of the unions as their bargaining partners.[12] Committed to keeping the governance of wage setting a negotiated institution among themselves and union leaders, Irish and Italian business leaders were unable to ignore the unions or capitalize fully on their power to impose tough terms on them because they, like the unions, preferred to keep institutions informal. Business leaders in the Irish and Italian cases were not in a low salience bargaining environment that would have allowed them to rely on their power resources to impose any agreement they chose. And the absence of formal rule making on this high salience issue meant that it was not located in the northeast quadrant of the governance space, and that political parties were unable to be the prime movers in the institutional agreements reached in these social pacts.

In short, different combinations of political salience and institutional formality will result in systematically different modes of political interaction. This book has assessed these propositions in depth only in the southwest quadrant of Table 7.1. A test of these claims for the northwest and southeast quadrants is far beyond the scope of this concluding discussion. Yet the following two sections of this chapter will illustrate the potential analytical utility of these dimensions for illuminating important, contested questions in the study of politics. The next section reconsiders the claims of the literature on business power in light of variations in salience and formality. The following section then explores current debates over the politics of liberalization and institutional change in comparative politics. In each of the two areas, understanding the political implications of variations in political salience and institutional formality helps make sense of abiding disagreements in these important areas of inquiry.

Political Science and Business Power

Scholarship in comparative politics has never before focused as heavily as it now does on the role of business in explaining national varieties of capitalism. Yet the study of business power is currently more neglected than it has been for the last half century.[13] What lies behind this paradox? On the one hand, past theories of the structural power of business have been marginalized in the face of careful studies showing how often business organizations fail to get what they want in politics.[14] On the other hand, most political scientists have followed the analytical stance adopted by Kathleen Thelen in eschewing

[12] Culpepper (2008).

[13] Robert Dahl published an article in the *American Political Science Review* in 1959 in which he reenergized the study of business in politics, claiming that the interaction of business and politics presented "no dearth of important and even urgent questions. But political scientists do not, by and large, seem to be searching for answers" (p. 34).

[14] Vogel (1987), Smith (2000).

"the language of 'power' in favor of identifying the interests and coalitions on which institutions are founded [because], unlike power, actors and their interests are more tractable empirically."[15] This choice has been highly productive in terms of understanding the coalitions that built and sustain modern varieties of capitalist institutions.[16] However, the concentration on business interests and their structural foundations has had an unintentional byproduct: a neglect of the mechanisms by which business converts its interests into policies. Does business get what it wants from politics because it forms coalitions with other groups and gets a majority in the legislature, as in coalitional theory? Or because political parties of the right protect it, as in partisan theory? Or by influencing public discourse in order to move the median voter toward its preferred position? Each of these positions has its proponents, but most of the analytical attention is on *why* business wants what it wants (usually a result of favored product market strategies and existing institutional endowments), not *how* business organizations go about getting what they want from politics.

I have argued that the arenas of political contestation depend on whether the political salience of a given issue is high or low and whether or not its institutions of governance are primarily formal or informal. This insight is relevant to debates on how business tries to exercise influence, because it suggests that such influence is dependent on the quadrant in which political activity is located. When business leaders try to influence tax policy, they have to work through political parties or by persuading public opinion. The tools of quiet politics do not work in the arenas of institutional choice dictated by high salience and formal institutions. When they want to influence issues of high political salience that are governed through informal institutions, their ability to get what they want is constrained by the threat of potential state intervention. Thus, they can bargain hard with unions or other interest groups, but the joint imperative for keeping governance informal dilutes their power. As a general rule, salience is more important for determining the degree of business influence than is institutional formality. Business has to work with allies in high salience arenas, and working with allies forces business organizations to make compromises.

Developing a theory of why some issues become politically salient and why others do not is well beyond the scope of this book. But given the important differences between politics in domains of high and low salience, a skeptical reader might well ask: if it is true that business is advantaged in low salience politics, why does business not strive to make the issues it cares about as low salience as possible? We have seen in earlier chapters that the organizations representing the managers of large companies prefer to work behind the scenes, knowing that is where their influence is likely to be greatest. The fact is, however, that business organizations have few tools to ensure low salience. If business organizations refuse to talk about an issue, that rarely stops an ambitious reporter

[15] Thelen (2004: 32–33).

[16] Katzenstein (1985), Crouch and Streeck (1997), Hall and Soskice (2001).

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or politician from trying to exploit the issue to acquire either newspaper readers or votes. Business does not generally have the tools to keep the press from covering issues in which people might be interested, except in Hollywood conspiracy movies. Business organizations can certainly spend money to try to raise the profile of issues on which they believe voters will share their point of view or to try to influence the way in which the press covers certain issues. Of all the weapons in its armory, though, business organizations do not possess the low salience magic wand.

These observations are consistent with the findings of scholars who have investigated the effects of business power, particularly in the United States, and have found it to be limited. The classic work of Charles Lindblom on the instrumental and structural sources of business power is the reference point for much of this discussion.[17] Lindblom argued that business possessed substantial advantages in the capacity to lobby and to influence public opinion, as the result of the resources at its disposal. Lindblom's study is best remembered for its notion of the structural power of business, in which the possibility of business disinvestment is sufficient to take certain issues off the table of political consideration. Time and evidence have not been kind to this thesis. Lindblom's critics have taken him to task for identifying both the power resources of business and its structural advantages, but not then explaining why, if business is so powerful, it still loses so many legislative battles in the capitalist democracies.[18] A successful theory of business power must explain why business loses as well as why business wins, and Lindblom's work does not.

Studies of American business have not found the influence Lindblom attributes to business organizations. One of the finest pieces of research in this vein is Mark Smith's careful empirical study of the power of American business since World War II. Smith demonstrates that the issues on which business holds an internally unifying position – that is, where companies are largely united across different sectors on a given political issue – are also those which tend to have high political salience. If these issues are big enough to unite the diverse interests of the business community, they are often important enough to attract widespread public attention. The high salience of these issues helps mobilize other constituencies, and the incentive of politicians to follow the votes does the rest, much as I have argued. Thus, Smith shows that a mobilized public dampens the effect of the monetary advantage held by business in the political arena.[19] The funding of political campaigns appears to have a weak effect. This is consistent with the finding of other scholars that money spent on lobbying is rarely predictive of which side will win in American legislative battles.[20] When business is unified, issues are likely of high salience, and business loses in these arenas routinely.

[17] Lindblom (1977).
[18] Wilson (1980), Vogel (1987).
[19] Cf. Hacker and Pierson (2010).
[20] Baumgartner et al. (2009).

Smith's insight is undoubtedly correct. The structural power of capital is attenuated by the electoral incentives facing legislators. In the United States, where money is often thought to exert more influence in politics than elsewhere, even money spent on lobbying does not buy success for business groups in high salience environments. The structure of electoral democracy restrains business in these situations, more than the structural power of business restrains democracy. The greatest influence business exerted, in Smith's study, was in its attempt to shape public opinion more broadly by funding conservative think tanks in Washington: "a unified business community most effectively gains influence over policy not by working against citizen control of government but rather by working through it."[21]

Should we therefore dispense with the notion of business as being a special interest group in democratic politics? Is it just an interest group like any other?[22] The evidence in this book suggests not. Lindblom and Smith are both right. Organized business does benefit from the deference of politicians, when voters are not paying attention. And their lobbying capacity is a formidable tool in this circumstance. But, as Smith claims, the power of business must be exercised through different channels when an issue acquires high political salience. Business organizations must work through the democratic process, which means acquiring allies and persuading voters. Smith's methodological move – of looking at business only when it is unified – is a sound way to test the question, "Does business win when it is unified?" It is not, however, the only way to try to assess the political power of business. In this book I have focused on business interests as being the collective preferences of the senior managers of the largest companies. These managers have disproportionate impact on peak associations of employers – that is, those associations that combine small and large companies. They also have their own direct lobbying power as well as specialized organizations of large firms (such as the AFEP in France and the VEUO in the Netherlands). Even these associations have membership that is divided in its political opinion among different factions. But those factions that succeed in dominating the organizations have powerful political tools at their disposal, even though business was not unified behind a single position. And, crucially, they faced a very different playing field when issues were not of high political salience.

Expertise and lobbying capacity are the key resources in issue domains characterized by low political salience, whether they are governed by formal or informal institutions. As observed previously, the bureaucratic network negotiations that characterize domains of low salience and formal institutions involve ongoing exchanges among interest group representatives and representatives of the state. As long as the area is of low salience, politicians delegate these questions to bureaucrats. Business organizations are typically expert in the areas

[21] Smith (2000: 195).
[22] Vogel (1987).

of most concern to them and state bureaucrats tend to rely on this expertise. Governments in most industrial countries undertake a vast amount of activity; citizens pay attention to only a very small proportion of that activity. This means that most policy systems regulated by states are dominated by the members of the vested interests that are involved in the details of their governance, as Frank Baumgartner and Bryan Jones have shown in their work on the different policy subsystems in the United States.[23] Political salience draws the attention of politicians to a policy subsystem and can radically change it. Most subsystems, though, simply never receive this sort of attention. Given this situation, business interests are well placed to exercise important influence in these policy subsystems. This is not primarily because of the structural power to disinvest, which Lindblom emphasized. It is instead because they know the facts on the ground, and that expertise is extremely valuable in negotiating with other members of the policy subsystem. On the rare occasions when politicians turn their attention to typically low salience areas, they enter with an asymmetry of expertise vis-à-vis the representatives of business. Here, the tools of quiet politics are of great use to business organizations.

Of course, a bureaucratic policy network is still an area in which the state is the formal rule setter. Thus, informal institutions with low salience are even more likely to result in disproportionate business influence because these are arenas in which private interests make rules directly, without working through state regulators. Opponents to the existing institutional structure do not even have a chance to express their views because they are usually excluded from these forums. And, under the assumption of low salience, there is no credible threat of state intervention. Why challenge business about how best to run business if the public does not vote on the basis of these issues? This is a losing bet for most politicians and they rarely take it.

The foregoing considerations suggest that we can order the different domains of governance in a linear fashion to infer the likely political influence of business organizations versus political parties. Salience trumps formality because governing parties are often in a position to expand the ambit of formal regulation if voters demand it. Other things equal, we expect parties to be most influential the more we observe high salience and formality. Symmetrically, we expect business organizations to be most influential in domains of low salience and institutional informality. Figure 7.1 summarizes this relationship.

Figure 7.1 illuminates what most interest group actors and politicians already know: business is more likely to win political battles when voters are not paying attention than when they are. Similarly, political parties are more likely to intervene on the issues voters care about than on those voters do not care about. I have explored the ways in which the quiet politics of low salience differs from the noisy politics of high salience, and the reasons for which quiet politics makes business organizations more likely to succeed in achieving their political objectives. But the issue of corporate control is extreme, in that it is

[23] Baumgartner and Jones (1993), Jones and Baumgartner (2005).

Business Influence Increases

High Salience	High Salience	Low Salience	Low Salience
Formal Institutions	Informal Institutions	Formal Institutions	Informal Institutions

Political Party Influence Increases

FIGURE 7.1. Political Parties, Business, and Determinants of Political Influence

so rarely of high salience. Other issue areas are not so categorically either of high or low salience – their salience varies over time. Their governance may also shift between formal and informal institutions over time.

We therefore expect political actors to try to choose an arena of conflict that favors their strengths. In other words, this table highlights the likelihood of forum shifting: political actors trying to move from a less favorable to a more favorable box in this table. If business cannot win a dispute over new environmental regulations passed by a legislature – a conflict that takes place in the high salience, formal institutional box where business is least influential in comparison with political parties – perhaps it will fare better by shifting its attention to questions of implementation (through the bureaucracy) or judicial interpretation (through the courts). If increases in salience are only temporary, then business organizations should expect to do better by conserving resources spent on a legislative battle they are likely to lose, unless they have lots of allies. Instead, their ability to wield disproportionate influence – and so not to have to rely on allies – goes up if they can ride out the storm of public attention and shift to a technical battle over bureaucratic regulations that is uninteresting to newspaper readers. Similarly, policy entrepreneurs and interest groups will try to heighten the salience of an issue when they think they can mobilize broad support in the populace.[24] They are practicing forum shifting on the calculus that they are more likely to win when they can convince political parties that their potential voters care about an issue.

Conceiving of politics this way suggests a channel out of the cul-de-sac into which debates over business power have led. Business may indeed have a structural advantage, as Lindblom argued, but the value of deference is conditional on public attention and concern about an issue. Business power is a constant, but only in high salience, informally governed institutional arenas. Moving to other arenas causes business power to vary – and, other things being equal, the higher the salience of an issue, the weaker the hand of business. When political salience is high, the special advantages of business shrink to insignificance. Whether or not business gets what it wants or not under the

[24] Kollman (1998).

glare of the public spotlight is a function of beliefs in the general population and whether managerial interests are protected by a party of the right. The debates over executive pay in Chapter 6 revealed that even parties of the right will throw their business allies under the bus once the cost of supporting them becomes too high.

Yet Lindblom's arguments about structural power are all too apt for areas of low salience. Business brings a certain expertise in this area, and the expertise produces deference from politicians because politicians know their chances of reelection hang partly on the performance of the economy. Where the press has not invested in developing its own expertise, business also can influence press framing of issues of concern to it. Journalists seek out experts to make stories readily comprehensible to their readers, and when business has the most relevant expertise, it is likely to get press coverage that provides ample exposition of its point of view.

Taking business power as a variable, whose value depends on the quadrant in which political struggles are conducted, allows us to reconsider the influence of business in the United States.[25] It is often alleged in the popular press and by scholars that the role of money in American elections leads to an especially influential voice for business in politics in the United States, in comparison with other advanced industrial countries.[26] The argument about governance laid out here suggests that money spent on campaigns is merely an additional factor that reinforces the existing tools of quiet politics. When the public is not paying attention to issues, politicians will defer to business interests anyway,

[25] One very important recent debate in this field took place over the origins of New Deal social policy in the United States, and its protagonists were Peter Swenson (2004a and b) and Jacob Hacker and Paul Pierson (2002, 2004). Hacker and Pierson argued that the New Deal was a product of a steep decline in structural business power in the United States during the 1930s. Swenson argued contrariwise that the New Deal was a product of the shifting interests of American business with respect to the provision of old age insurance. Hacker and Pierson adopted a structural argument, in which business lost its exit option when the locus of social policy debate shifted from state capitals to Washington, DC. Swenson argued not about the mechanisms of employer power (*how* they got what they wanted from policy, in Washington or at the state capital level), but about how the *interests* of American segmentalists corresponded to the features of the old age insurance actually adopted through the New Deal, inferring that because their interests were close to the policy adopted, those business interests must have constrained policymakers.

Like Hacker and Pierson, I argue that business power is a variable, not a constant; like Swenson, I argue that political economic structures (in my case, works councils; in his case, labor markets) strongly influence the preferences of business groups. Such debates about business power are important for the analysis of democratic politics, and they can best be resolved empirically by identifying the key episodes of policy making and the tools of influence that different interest groups bring to bear. The theoretical expectation of my work is that business is likely to lose legislative battles when discredited by a high salience economic crisis, such as the Great Depression. The question one must investigate in this sort of dispute is whether the ability of business interests to influence policy through informal forums was great enough to counteract their weak influence in the halls of Congress during the New Deal.

[26] Hacker and Pierson (2010).

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faced with business arguments that state intervention could adversely affect the economy. It is business expertise and lobbying capacity – rather than campaign donations per se – that give business this seat at the table. When issues acquire high salience, politicians in the United States will follow public opinion, no matter how much business has donated to political campaigns.

One hypothesis that emerges from this line of inquiry is that what makes the United States so friendly to business interests, in comparative perspective, is not its election campaigns, but the frequent use of courts to resolve disputes over public policy implementation. Courts, like bureaucracies, are informal forums in which actors battle over technical issues requiring both issue competence and legal expertise. In court battles, the monetary advantage of business is likely to pay big dividends, because the complex issues that are resolved through the court system may require thousands of hours of legal bills. American courts are aware of what issues are salient.[27] But they do not generally have the political incentives of parties to respond to public opinion when the public cares strongly about an issue. Courts usually resolve political struggles on questions of expertise and interpretation, not of public opinion. It is only when Congress threatens to make new laws in response to court decisions that the logic of high salience can reassert itself once issues have been thrown into the court system for resolution.

This is but an illustrative argument and these hypothesized relationships need to be subjected to careful empirical scrutiny. All too often, scholarship in political science pays close attention only to the quadrant of high salience and formal institutions. If these other quadrants have their own distinctive logic, political analysis needs to explore the less well-known features of political contestation in the remaining quadrants. At the very least, this framework of analysis promises to restart a productive discussion on the scope and limits of business power in contemporary democracies. It may well also shed some light on current debates over how institutions change in politics. That is the subject to which we turn now.

Political Salience and Institutional Change

The dimensions of salience and institutional formality structure political contestation and the power resources available to social actors in predictable ways. Given the patterns of political interaction we expect across the different quadrants of the governance space, we might also ask whether these quadrants are subject to different logics of reform. It is unlikely that each quadrant has a unique logic of institutional change. However, I argue that processes of institutional change that involve a shift from low salience to high salience quadrants are especially likely to be characterized by radical discontinuity. Where salience is stable, at either a low or a high level, I hypothesize that the gradual processes

[27] Epstein and Segal (2000).

of institutional change discussed by historical institutionalists are more likely to prevail.

The idea of punctuated equilibrium as a model of institutional change has been heavily debated in recent theoretical work in political science. Punctuated equilibrium describes a process by which long periods of stasis are broken by short, sharp periods of radical change. Political scientists have been attracted to the model because it corresponds to the notion that institutions structure politics in relatively durable ways and only change with difficulty. Both rational choice and historical institutionalists use institutional variables to explain the long continuities that we observe in politics. Rational choice institutionalists look to equilibrium arrangements in which political actors settle into a stable pattern of interaction from which they have no incentive to emerge, given the existing allocation of resources.[28] Historical institutionalists focus on path dependence, the process by which choices made in an earlier period make it difficult to switch paths in later years. Each quality should make institutions extremely resistant to change. Empirically, though, the real world offers much more change than these models would lead us to expect.[29]

Confronted by this gap between theory and reality, scholars in both analytical traditions have developed strategies for making their mechanisms of stability equally persuasive in explaining institutional change. Rationalists, confronting the critique that equilibrium analysis depicts a world in which change must be exogenous to the core model, have argued for a focus on quasi-parameters: variables that can be considered fixed and exogenous in the short run, but whose value over time may be affected by the implications of a given institution.[30] Changes in these quasi-parameters brought about by regular institutional functioning can reinforce or undermine an established rule, thus making the process of change endogenous. Historical institutionalists, whose characteristic concern has always been the unfolding of complex processes over time, zero in on the ways in which institutional layering leads to an evolution – an endogenous change – in the functions and implications of a given institution.[31] Thus, both sets of institutionalists seek the sources of incremental change within the same set of structural variables that lead them to predict long periods of institutional stability. Particularly among historical institutionalists, this has led to a disdain for models of change based on punctuated equilibrium: "equating incremental with adaptive and reproductive *minor* change, and *major* change with, mostly exogenous, disruption of continuity, makes excessively high demands on 'real' change to be recognized as such and tends to reduce most or all observable changes to adjustment for the purpose of stability."[32]

[28] North (1990).
[29] Thelen (1999), Crouch (2003), Weyland (2008).
[30] Greif and Laitin (2004).
[31] Thelen (2004).
[32] Streeck and Thelen (2005: 8).

The vogue within this school of analysis has been to characterize the myriad processes by which institutions can evolve incrementally and to show that these incremental innovations have a cumulatively transformative effect. Jacob Hacker, for example, has coined the notion of policy drift. Drift refers to "changes in the operation or effects of policies that occur without significant changes in those policies' structures."[33] For Hacker, the American welfare regime has not updated its policies in keeping with its original goals of socializing risk. The policy regime appears stable because drastic change has not occurred in the formal rules of the game, but patterns of private and public coverage of health and retirement risks have accumulated in a way that marks a significant increase, or "privatization," in the level of individual risk. Kathleen Thelen writes about two such processes in her analysis of how skill regimes have changed in several advanced capitalist countries over time.[34] One is the process of layering by which new institutional elements are grafted on to preexisting structures, thus changing their function over time.[35] The other is the process of conversion, by which old institutions are put to new ends. One prominent example in her study shows how the incorporation of organized labor as a partner in the governance of the German training system changed the functional and distributive implications of the system.[36] Through each of these processes, historical institutionalists find that apparently stable policy regimes in fact change in important ways.

The voting public is rarely an actor in such changes. This is strange, given the ample evidence that many policies respond to the preferences expressed in public opinion.[37] Most of these gradual institutional transformations appear to emerge instead from a set of deals whose ramifications only become clear over time. The implication in some of this work is that such changes take place because powerful actors want to avoid the veto points of political systems.[38] Incorporating political salience into such analysis would allow scholars to clarify two distinct political processes, which historical institutionalist analysis sometimes conflates. First, there is the issue of unintended consequences, where upstream changes to policy regimes have downstream effects that few actors initially foresaw. Because the effects of these changes are hard to anticipate, it is easy to understand why the public would not care about them. Yet this scholarship sometimes makes a second claim: that these institutional mechanisms are part of a deliberate political strategy of policy subversion, as in Hacker's argument that American conservatives have gradually undermined the public insurance of private risks through the mechanism of policy drift.[39] Particularly in cases involving important social policies, which are generally of high salience

33 Hacker (2004: 246).
34 Thelen (2004).
35 Cf. Schickler (2001).
36 Thelen (2004), Streeck and Thelen (2005).
37 Soroka and Wlezien (2010).
38 Hacker (2004 and 2005), Hacker and Pierson (2010), Mahoney and Thelen (2010).
39 Hacker (2004).

to a large number of voters, institutionalist analysis needs to pay attention to the question of why public attention was *not* drawn to the issue, because such voter pressure can almost always stop reforms in their tracks. The political opponents of institutional change know the power of public pressure as well as anyone. So it is important to ask why they do not draw on their trump card of mobilizing the public against these changes. It is often true that institutions have an internal logic of their own that unfolds beyond the reach of voters. But institutionalist analysis would be more persuasive still if its practitioners were always attentive to the ways in which potentially blocking minorities were not mobilized around issues of high political salience.

Scholars of public policy criticize the structural premises of institutionalist models on similar grounds, and their analysis leads them to give a much more prominent role to radical change in their analysis.[40] These scholars observe that policy subsystems can have autonomous logics of functioning, but that public attention to issues can subject any area to the possibility of radical change.[41] For this group of scholars, punctuated equilibrium *is* the most accurate representation of democratic politics. The microfoundations of this work lie in cognitive psychology and behavioral economics and the focus is on how political systems process information.[42] Jones and Baumgartner's work on the American political system shows that punctuated equilibrium is exactly how we should expect political institutions to change because organizations update their information "with difficulty, sporadically and episodically."[43] When these systems finally react, they are indeed likely to overreact, as politicians rush to "do something" in response to a long ignored or discounted problem and new information. Thus, looking at the ultimate index of government action – the budget – Jones and Baumgartner find strong support for the proposition that most policy areas in the United States have been subject to substantial continuity, with a few outliers experiencing radical discontinuity. Kurt Weyland, examining the Latin American process of neoliberal reform, uses prospect theory to explain processes of "fitful reform." Politicians are risk averse until crisis strikes, which puts them in the domain of losses, where they suddenly become risk seeking and open to new ideas for policy reform. Here again, long periods of failure to reform are followed by bursts of radical change. The foundations of both models are not of stylized interest maximization, but of the empirical proclivities of human decision making. And they are consistent not with subtle change over time, but with episodes of radical change coupled with long periods of stability.

Some might say that these different perspectives result from different objects of study: Jones and Baumgartner write about the overall policy system of the United States, while historical institutionalists typically write about changes in

[40] Weyland (2008).
[41] Jones and Baumgartner (2005).
[42] Jones (1994), Weyland (2002), Weyland (2008).
[43] Jones and Baumgartner (2005: 17).

one policy area over a period of time. This is incorrect. Weyland, using similar analytical bases to Jones and Baumgartner, finds the politics of economic policy and liberalization in welfare states in Latin America to be characterized by punctuated equilibrium.[44] The contributors to an influential recent volume by Wolfgang Streeck and Kathleen Thelen are writing about patterns of liberalization in economic policy and welfare states in the United States and Europe.[45] These scholars are studying the same thing, albeit in different countries: the politics of liberalization. And the debate is an important arena for the democratic legitimacy of state decisions involving market regulation. As we have seen, institutional change that takes place in the formal, high salience arena involves the public: parties are disciplined by the fact that voters are paying attention to an issue area, and the strategy of party leaders is oriented around staking a claim that makes the party attractive to voters. By contrast, if the politics of liberalization shifts into the shadows of bureaucratic policy networks, there is a much greater risk of liberalization by "stealth."[46] This is the overriding normative concern that appears to motivate the work of the contributors of the volume by Streeck and Thelen and by other important contributions to historical institutionalist scholarship on liberalization.[47]

The missing dimension of political salience helps make sense of this disagreement. Debates over institutional change have been a highly fertile area for work by social scientists in recent years. Yet the concentration on the internal logic of institutions, and the way in which they may evolve over time, should not obscure how they interact with broader patterns of political struggle. When political scientists write books about institutional change within a given policy area over time, they have a natural tendency to consider these as *the* political dynamics of institutional change. If variation in political salience has the regular effects on governance domains that I have claimed, then the character of institutional change should vary when a policy issue moves from low to high salience. High salience institutional change in the formal domain is likely to involve political parties who are responsive to public opinion, as Jones and Baumgartner (and many others) argue. When public opinion creates incentives for these parties to deal with an issue, long-standing compromises can be shattered and radical change is easily imaginable. The stability of issue salience should instead involve glacially shifting power dynamics within apparently stable configurations, as Streeck and Thelen argue. There is no single politics of liberalization that unites these sorts of institutional change, because the arenas of struggle and the actors are so different.[48]

Rather than seeking a single logic of institutional change, institutional scholarship may best be served by incorporating the public as an actor in models of

44 Weyland (2008).
45 Streeck and Thelen (2005).
46 Gordon and Meunier (2001).
47 Streeck and Thelen (2005), Scharpf (1999), Hacker and Pierson (2010).
48 Hall and Thelen (2009).

institutional change. If voters begin to care about an issue that has previously been off the political radar, then punctuated equilibrium is the most likely form of institutional change. This process will be driven by the intervention of vote-seeking politicians who, in combination with a politically mobilized public, are the ingredients of radical policy change. How these forces interact with the conventional institutional forces of inertia is likely to be an important area for future research.

Looking Forward: Business Power after the Crisis

As this book goes to press, organized business around the world faces a dramatically changed political environment. The systematic failures of risk assessment that contributed to the global economic crisis of 2008 highlighted shortcomings in managerial expertise. The realization that many of the financial institutions that had taken on outsized risks were in fact "too big to fail" has necessitated huge public outlays to keep these private companies afloat. These massive managerial failures went hand-in-hand with equally massive pay packages, which has put those pay practices under intense public scrutiny in all the major economies. Business has been rescued from errors largely of its own making, and its reputation for competence and efficiency is in tatters. In the United States and elsewhere, there are loud calls for a new regulatory framework, one that reinserts the state into markets from which it has been retreating for the past thirty years. The new social compact between business and government will look different in each country, of course, but most observers expect that large financial institutions and small hedge funds alike will have to face renewed regulatory oversight. Many indicators suggest that we are living through a period of radical renegotiation of the political status quo, and that organized business sits in a weakened bargaining position.

Do current models of politics help us to understand how we arrived at the present conjuncture, and what the determinants of collective choice in the next chapter of business-government relations will look like? The dominant theoretical approach in political science is to ask how these changes affect the median voter. If a recession makes the median voter poorer, we should expect more redistribution and more regulation of business. The findings of this book suggest that such a crude general prediction is worthless. In issues that achieve high political salience, such as whether the government should intervene in the executive pay setting of firms that receive public money, the prediction of more regulation is the right one. Even there, though, financial companies have rushed to find ways to elude these regulatory strictures, and the future effectiveness of these rules will depend on the extent to which executive pay remains a highly salient issue in American politics.

For issues of risk regulation of the finance sector, public outrage may have a much shorter half-life. If hedge funds are subject to greater regulatory transparency, will the economy lose some of the growth capacity associated with financial innovations introduced by that industry? The answers to such questions turn on expert knowledge, and it is hard to keep such questions in the public eye for long. We should expect much more stringent regulation of those issues that can tap into public outrage, such as CEO pay, than those issues that call for a complex new set of regulations. For this reason, we expect business power to bounce back much more quickly in low salience than high salience areas. There is not one model of politics, but four: depending on the mix of salience and formality involved, we expect business to have differential capacities to resist new regulatory initiatives.

These considerations raise a broader issue about how political scientists contribute to knowledge of politics. Namely, might it make sense to return to a more sustained discussion of power resources in politics? The institutionalist turn in comparative politics produced impressive achievements in how we understand the incentive systems that underlie national varieties of capitalism. We now possess very powerful theoretical elaborations of why certain production strategies lead companies in Germany to prefer different institutional arrangements than companies in the United Kingdom. What we understand less well, as a causal matter, is *how* business wins or loses in battles over institutional change. Structural theories of business power, such as Charles Lindblom's, ultimately failed because they could not provide a compelling account of why business loses as well as why business wins. But a focus on the power resources available to business, as well as to other interest groups, can allow political scientists to return to this question armed with the valuable insights of institutionalist research on capitalist economies.

Capitalist democracies are governed through the complex interaction of political parties, interest groups, and voters. This book has argued that the way to understand the relative power of parties and interest groups is through variations in salience and the formality of institutions in different domains of collective governance. These dimensions interact in predictable ways that privilege some of these actors and disfavor others. All democratic politics does not look alike, and power resources do not transfer easily across different quadrants of the policy space. A renewed attention to power resources seems a fruitful way to marry the advances of institutional political economy with the insight that policy domains have different politics. Ultimately, these political dynamics – and the power resources of different groups – will determine the new, postcrisis balance between states and markets in democratic societies.