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3. Governance, business and social policy: international and national dimensions

Kevin Farnsworth

INTRODUCTION

The issues of business power and influence over policymaking have re-emerged in the academic literature in recent years after a hiatus spanning almost two decades. The demise of academic interest in business power mirrored the falling out of favour of Marxist ideas, and its rediscovery can be traced to the growth of interest in the global economy and the central role played by corporations in globalization processes. Despite the rekindled interest in these general themes, however, business power is often under-theorized in the literature, whilst specific issues concerning the role of business in social policymaking remain relatively under-researched. This chapter theorizes corporate power before examining how globalization has transformed the power and influence of business. It then investigates how business has helped to shape social policy internationally and nationally, taking the UK as a case-study.

A THEORETICAL OUTLINE OF BUSINESS POWER

In order to better conceptualize and comprehend corporate power under globalization it is useful to begin by outlining the various ways in which power is exercised by business. To facilitate this, a conceptual distinction is drawn between structural and agency power.

Structural power can be defined most simply as the ability to influence social policy without exercising agency, and it is derived, not from the actions of business agents, but from the monopolization of capital: financial holdings, industrial plants and machinery. According to theories of structural power, various mechanisms restrict the choices of policymakers and the activities of labour to those which encourage investment, competitiveness and profitability. For governments, taxation revenues and stable political environments rely on continued business investment and profitability and a collapse in either may result in spending cuts or electoral failure (Block, 1990, pp. 300–305; Lindblom, 1977; Offe and Ronge, 1982). Employees similarly depend on employers for their livelihood which, for many workers, extend beyond income to workplace occupational welfare schemes. This reality compels workers and states to situate their own interests alongside those of business, and to ensure, as far as possible, that their actions do not unduly undermine or threaten business activities (Przeworski and Wallerstein, 1988, p. 12; Lindblom, 1977; Offe and Wiesenthal, 1980, p. 180), thus elevating business power above all other interests. As a result, business exercises ideological hegemony since its interests can be legitimized as being akin to the 'national interest' (Lindblom, 1977; Miliband, 1969, p. 165; Poulantzas, 1973, pp. 303–5).

The other form of business power relies on agency – the political engagement of business interests and their sympathizers. Business people and those occupying similar class positions occupy key positions within the policymaking institutions of the state according to Miliband (1969) and Domhoff (1967, 1978). Business can also utilize its access to vast financial resources to influence the policy process directly through donations to political parties and various corporate lobbying activities, including manipulation of public opinion (Lindblom, 1977, p. 185; Block, 1990, pp. 300–305; Mintz and Schwartz, 1990).

GLOBALIZATION, CORPORATE POWER AND SOCIAL POLICY

One of the paradoxes in contemporary social policy is that, at the same time that Marxist theories on welfare – which tended to stress the importance of structuralism to social policy development – have declined, strong accounts of corporate dominance have been revived under the globalization banner. Such accounts have revived structural accounts of business power in particular which tend to stress the inevitability of welfare retrenchment. Mishra (1999, p. 12), for instance, argues that globalization has 'strengthened the hands of capital against the nation state' through the creation of new exit opportunities which has meant that firms have 'far less stake in the nation state'. Roth (2002, p. 33) goes further, arguing that, as a result of globalization:

> European social policy has been ravaged by the lowering of social expenses, privatization, and corporate dominance. Indeed, corporate power is so influential

in both private and government policy that what we may once have called 'democracies' are often more accurately described now as 'corpocracies'.

At the heart of these accounts of globalization and social policy development is a particular view of how globalization transforms business power and economic conditions so that contemporary economies are no longer able to support public policies. This 'strong' globalization thesis can be summarized as follows:

1. Globalization exposes national firms to greater levels of competition which, in turn, undermines competitiveness and profitability.
2. Governments must act to reduce regulations and costs on firms in order to preserve profitability and prevent capital flight.
3. Firms will seek out the most cost-effective nation within which to do business and declare profits.
4. Unless governments continue to investigate ways of retaining current firms and/or attracting new ones, unemployment will increase and tax revenues will decline.
5. These pressures will render state welfare 'unproductive' and lead inevitably to ever greater cuts in public provision.

The problem with this thesis is that it lacks a credible view of corporate power. It is also too fatalistic and economically deterministic. The fact that key differences continue to exist between welfare systems, and within welfare states over time, makes it difficult to sustain (Pierson, 1995). This does not mean that all elements of the thesis are flawed, however, but that a more nuanced view, underpinned with a clearer exposition of corporate power and influence, is needed. In order to arrive at this, the following sections both rehearse and evaluate some of the most important contributions to the debate on corporate power and globalization in recent years.

CORPORATE POWER AND GLOBALIZATION

Various accounts of corporate power, including Marxist, elite pluralist and the assertions of strong globalization theorists, are guilty of putting forward inflexible and deterministic theories that underestimate the political autonomy of governments and overstate the ability and willingness of governments to act in the interests of business. To reject outright these theories of business power, however, is to risk underplaying the potency of business power. A range of factors impact on power and influence, rendering power itself a variable rather than a constant force (Vogel, 1989; Hacker and Pierson, 2002). To begin with, power, especially structural power, is clearly dependent on the extent of the real, as opposed to imagined, abilities of business to shift investment to other nations. Second, business power, especially agency power, is dependent on the organization, unity and cooperation that exist within the business community. Third, state and inter-state governance are important determinants of business power. Of relevance here is the location of decision-making, the nature of democratic processes in place, the historical dominance of particular classes or interests, the political complexion of dominant parties and the openness of the institutions of the state. How these factors affect the various aspects of corporate power and influence are considered below.

CAPITAL MOBILITY

The extent to which business can relocate investment is a key factor in determining structural power and influence. Yet, the conditions for capital mobility shift and vary over time and between spaces. It is far easier for capital to shift investment within rather than between states, for instance, and some firms may find it easier to shift investment than others. For still other firms, relocation may not be an option at all because they are tied to specific locations by production or access to markets.

Despite the processes of globalization, Hirst and Thompson (1996) have pointed out that increases in financial flows and foreign trade as a proportion of world GDP have increased very little since the early part of the twentieth century. More importantly, they have demonstrated that, far from being global, increased trade and investment flows since the 1970s are, for the most part, restricted to the triad of North America, Japan and Europe, although this is less and less the case with the phenomenal growth of China and India. Yeates (1999, p. 48) also reminds us that even the most transnational companies still have identifiable national bases, and that relocation is expensive and entails greater logistical problems than is often assumed, especially for firms that require access to raw materials or markets. It is generally easier for larger firms than smaller firms and is more straightforward within nations or free trade areas than between them. These are important arguments since, as outlined above, the extent of structural power is shaped, in part, by investment options and levels of mobility.

However, structural power is not determined by the extent of capital's global reach but by the actual and perceived ability of capital to shift investment to other states. Indeed, regionalization may amplify structural power to a greater extent than if capital were truly global as it tends to lead to increased mobility but depress national political interventions. This has been especially true within the EU, where mobility is especially high but political institutions remain incredibly weak. Thus, Europeanization is as important, or even more important, to growing structural power within the EU as globalization. The influx of capital into the EU from North America and East Asia has encouraged member states to compete actively with each other for this new investment.

Although the global reach of investment flows is not important to the extent of structural power, the motivation behind a firm's investment decisions within states is. A firm's decision to invest elsewhere simply to access new markets, for instance, is unlikely to trigger the same level of structural influence in the 'home' nation as outward investment in order to avoid anti-competitive regulations, tax levels or labour costs. Indeed, outward FDI can bring benefits to countries, including the development of new international trading links and the acquisition of new skills, technology and management methods. Governments will be much more concerned about losing investment to similarly developed economies than much less developed economies where they could not be expected to compete effectively on the grounds of cost. Similarly, governments are likely to be less positive about inward investment in the form of foreign takeovers than they are about new investment which expands production.

Existing governance structures, especially around capital mobility, corporate taxation, business regulations and social provision, are all important here. States with a high level of cooperation and coordination between companies and other 'stakeholders' – what Hall and Soskice (2001) refer to as coordinated market economies, for instance – are likely to face fewer threats to social provision from significant corporate relocations. Within such states, companies tend to be more long-termist, place higher value on the social contract negotiated with employees, and depend more heavily on greater skills and productivity levels that are underpinned by good-quality social policy (Scharpf and Schmidt, 2000). Hall and Soskice's (2001) other state form – liberal market economies – lack such coordinating structures; hence governments face a much greater threat from corporate 'shoppers' keen to seek out more profitable investment opportunities abroad, although they may also be more successful in capturing free-floating capital where more coordinated economies may fail.

The implication here is that national policies can themselves create certain needs and dependencies within the business community. If the economic setting is such that firms can only extract competitive advantage through cost factors, so that they are unable to rely on higher skill levels, stable employment relations and higher levels of stability and flexibility afforded by welfare systems, they are more likely to push for reductions in regulations, taxation and public provision. If, on the other hand, business is able to extract added value from more highly skilled and productive workers, it is less likely to demand such reforms from the government (Hall and Soskice, 2001, pp. 55–6).

Beyond the nation state, international governance is important. The policies of international governmental organizations (IGOs) play an important role in determining structural power. Although structural power is blunted somewhat at the international level – since beyond nations, the threat of exit disappears – international hegemons also play a part in reinforcing structural power through IGOs. The imposition of macroeconomic or welfare strategies on nation states directly reduces state autonomy and, if the effect is to increase the state's dependence on private capital, it will concomitantly increase structural power. The spread of global hegemonic ideas that promote privatization and market liberalization will have similar effects.

DIVISIONS WITHIN THE BUSINESS COMMUNITY

It is commonly held that governments cannot be unduly swayed by business opinion because there is no one clear, coherent and unified business view (Dahl, 1961). Competition, rivalry and opinion divide different sectors, large and small firms and national industrial interests (Mann, 1993). This has an impact on both structural and agency power. Although divisions within the business community clearly exist, it is important not to overemphasize the depth of the cleavages between different business interests. Business tends to unite on bigger substantive questions and divide on more specific issues, and is capable of uniting behind a range of issues when its interests are threatened or when opportunities for collective action emerge (Miliband, 1969; Coates, 1984).

Globalization has undoubtedly played a role in increasing the capacity for closer cooperation and greater unity amongst diverse business interests. Inter-corporate ties, based on formal ownership or informal association, have increased unity between firms (Clawson et al., 1986; Useem, 1990) as much as they have created new cleavages between them. Globalization and regionalization processes have also encouraged firms and organized business to improve the frequency and effectiveness of lobbying at the supranational level in order to shape international policy debates (Sklair, 2001; Coen, 1997). As the decision-making powers of international governmental organizations (IGOs) have increased, so the need for business to both lobby and speak with one voice beyond national economies has increased. Because they are keen to engage with key players, IGOs have also worked harder in this climate to seek out business partners and business opinions on key policy developments. As a result, exchanges and linkages between national and international business organizations and IGOs, including the EU, have become more institutionally embedded and this has given rise to greater coordination between corporate interests and decision-makers and even, according to Sklair (2001), the formation of common ideological and class positions at the global level.

THE IMPORTANCE OF NATIONAL AND INTERNATIONAL GOVERNANCE

There is no doubt that, even when faced with increased pressure from powerful interests such as business, national state governance remains important. For some, the particular interests and goals of state actors are most important to understanding national social policies (Skocpol, 1985, p. 28). Here the opportunities that key interests have to engage with, and potentially influence, state players is crucial. Thus, for institutionalists like Skocpol (1985), the state is 'potentially autonomous' and capable of acting independently of business interests. Not only are states capable, in theory at least, of controlling investment flows, but state officials are also themselves innovators of social and public policies according to Skocpol (1985), and are able to expand, cut or alter service provision (Martin, 1989, p. 194). The engagement between key actors outside the state is also important in determining power relations and ultimate policy outcomes.

Although such arguments are important reminders that governments, and other interests within nation states, retain a great deal of power, influence and autonomy under globalization, it is important to recognize that national governance structures are themselves less malleable than is often thought – they are shaped by historical decisions and may privilege, as well as create access points, for certain interests. Thus, regardless of the hypothetical choices they may have, many states have felt compelled to adjust domestic policies in order to steer social and fiscal policy towards business interests through reducing corporate taxation, relaxing controls over labour and cutting levels of social provision. And any reversal of these policies – or attempts to buck current policy trends by increasing corporate taxation, labour regulations and social provision – could put at risk existing and future investments. The level of this risk will depend on how a country has been 'sold' to investors in the past, and how quickly the economy is able to readjust to different ways of securing future investments; hence it is important to emphasize again the importance of the institutional and economic setting. However, within the prevailing global climate, it is more difficult to expand welfare and taxation than to reduce them. In this respect, even if it is the case that globalization has given birth to political fatalism, this fatalism has tended to promote business power and business interests above those of other groups.

The political room for states and IGOs to manoeuvre is also dependent on the access key players have to policymaking bodies. The importance of business to the economic and even political fortunes of governments means that they are unlikely to be left out of key policymaking forums. Indeed, contrary to the familiar picture that is painted of interest groups banging on the doors of policymakers in order to gain access, governments and IGOs often go out of their way to recruit corporate players onto decision-making bodies. In some instances access is formalized, as is the case in corporatist states. In other instances, attempts have been made to increase the voice of business. This has especially been the case within newly evolving international governance structures. For instance, one key forum which brings business and policymaking elites together – the Transatlantic Business Dialogue (TABD) – was set up not by business, but by the European Commission and the US Department for Commerce (Balanya et al., 2000, p. 103). Business-sponsored policy forums – most notably the World Economic Forum held annually in Davos – have also evolved into international celebrity events, attended by global corporate and political elites which include the most senior business representatives of the largest companies and the prime ministers and presidents of the smallest and largest countries. Through these various routes, international business gains important access to the international policy arena and helps to shape social policy discourse within and beyond supranational institutions.

IMPACT ON SOCIAL POLICY

What emerges from the above discussion is that, by and large, the potential for business influence on social policy has increased as globalization has transformed corporate power and social policy governance. However, the processes through which business has come to assert greater influence on social policy are multidimensional.

At the international level, business has become more adept at exploiting opportunities for agency engagement. As already noted, structural power is considerably reduced beyond nation states and international business has become more adept at promoting corporate-centred social policies. Thus, contrary to the view that business lacks an overarching policy perspective, globalization processes have given rise to a relatively coherent international business perspective on social policy which has been documented elsewhere (Farnsworth, 2004, 2005a, 2005b) and can be summarized as follows: (1) increases in social policy expenditure can only be afforded through the increased productivity, investment and profitability of business; (2) social provision has to fit with contemporary competitive pressures; (3) public services should be opened up to more competition; and (4) services should be made to emulate the private sector (Farnsworth, 2005b). In short, international business has tended to push for general reductions in 'unproductive' welfare, including social protection and health care, and an expansion in 'productive' welfare, most markedly education and training services, although importantly, business has also advocated a bigger role for the private sector in these areas. Only in education and training is more generous public funding consistently supported; privatization and spending cuts are advocated for other parts of the welfare state (Farnsworth, 1998, 2004). Business has also argued forcefully against future increases in corporate taxation (see Farnsworth, 2005a, 2005b). Whilst this approach to social policy is not especially prescriptive with regards to the details of what business might support in the area of social policy, it is relatively restrictive in terms of its compatibility with social provision.

The impact of this corporate-centred view of social policy can be seen in the policy prescriptions of IGOs. If we focus on recent developments in those IGOs that are considered to be the most sympathetic to social provision, the OECD and the EU, and compare these with the class positions of capital and labour, international social policy discourse appears, if anything, actually to have shifted closer to the business agenda. The OECD's *Jobs Study*, for instance, recommended that governments tackle inflation, increase wage and employee flexibility, eliminate 'impediments to the creation and expansion of enterprises', relax regulations on employment, increase employee skills and reform social protection systems to ensure that they do not impinge on labour markets (OECD, 1994). *A Caring World* (OECD, 1999), meanwhile, argued that social protection 'can ensure that those who lose their jobs are insured against loss of all their income during the period while they search for a new job' and can 'assist displaced workers to readjust to the new labour market opportunities'. It went on to argue that 'well administered' social provision can 'reduce resistance to change and new working practices' and enhance 'the attractiveness of the country concerned as a business location' (ibid., p. 137). Although it concluded that 'one effect of globalisation could be to increase the demand for social protection', it went on to suggest that governments, under financial pressures, should make 'more effective use of the networks and skills of non-government organisations' including 'outsourcing some activities . . . to the private and not-for-profit sector' in order to 'benefit from cost-efficiencies and competitive tendering' (ibid., p. 126). Finally, it argued that because globalization increases capital mobility, it is likely to lead to an increased burden of taxation being borne by workers, and because this will distort the labour market, this may mean that 'regardless of the need for it social protection may become more difficult to finance' (ibid., p. 137).

Within the European Union there has been a similarly increased emphasis on competitiveness and a more capital-centred social policy since the 1990s. The 1997 Amsterdam summit, for example, urged that 'more attention be given to improving European competitiveness as a prerequisite for growth and employment' through the development of a 'skilled and adaptable workforce responsive to economic change'. It went on to recommend 'a reduction in the overall tax burden', and 'training and lifelong learning in order to increase employability' (Balanya et al., 2000, pp. 64–5). More recently, and more importantly, the Lisbon Agenda has, since 2000, pushed member states towards making improvements to education and training provision, cutting regulations and red tape on corporations, increasing work incentives, cutting non-wage labour costs and completing the internal market in services, with the aim of making Europe 'the most competitive and dynamic knowledge-based economy in the world' by 2010 (European Parliament, 2000). Where IGOs have acted to foster better corporate governance, they have stopped short of regulation in favour of voluntary agreements. Corporate social responsibility (CSR), for instance, has been promoted as a method of militating against the worst aspects of global corporate activities that can undermine social conditions and, in the worst cases, erode basic human rights. The UN has established its Global Compact while the OECD and the European Commission have both established guidelines of operation for multinationals. What they all have in common is that they have no legal or binding status on governments or corporations themselves.

Beyond the international level, partly as a strategy to facilitate unity around baseline issues, and partly in order to deal with the fact that national business interests may have unique concerns, interests and opinions, international business tends to leave the specifics to national business interests. It is at this level, with respect to policy details, where divisions most often occur, although here national institutional frameworks and policy context are often important determinants of the extent of divisions and subsequent impact. This notwithstanding, there is evidence to suggest that the international 'bottom line' approach to social policy is helping to shape some national business prescriptions on welfare where the key determinant of business opinion on social policy is the extent to which provision impacts on the free movement of capital, on the employment and skills set of labour, and ultimately, on profits (Farnsworth, 2005a, 2005b). The rest of this section reviews evidence from British social policy.

The ability of most countries to control financial capital has become extremely weakened under globalization, but the UK is distinguished especially by a decisive move towards opening its economy and deregulating capital controls since 1980.[1] The UK has some of the highest levels of inward and outward FDI rates, as a percentage of GDP, amongst the G7 countries. In 2000, for instance, the UK's outward FDI was almost double the rate of the next-highest country, Canada (UNCTAD, 2002, p. B6). The UK is also relatively highly exposed to transnational industry, as foreign manufacturers now account for more than 30 per cent of total production in the UK, which is higher than for most of its competitors (Coppel and Durrand, 1999, Table 6). This, together with the fact that the UK has historically had relatively low absolute levels of domestic business investment (Gamble, 1990; Bond and Jenkinson, 1996), creates disproportionate dependency on mobile capital. In the UK, a great deal of store has been placed on the importance of maintaining high levels of foreign investments, partly to make up for failing domestic industry and historically low levels of indigenous investment, where this competition has been based primarily on cost factors. Thus, the UK has tended to sell itself as a country with low labour regulations, low taxation, low wage costs and low social costs, facilitated by a significant weakening of trade unions. The 1982 *Green Paper on Corporation Tax* stated that:

> The UK system of company taxation must be capable of application to multinational concerns, overseas shareholders and so on. It must also command a degree of acceptance from the international community . . . Any major change in the level or incidence of tax on company profits would affect the balance of advantage between the United Kingdom and other countries. (HMSO, 1982)

Later, in 1993, the British government placed an advertisement in the German business press which encouraged firms to take advantage of:

> lower wage costs in Great Britain . . . [where] wages and social charges are significantly lower. [T]he labour costs index for Britain is 100 compared to 178 for Germany. (cited in IDS Quarterly, 1993, p. 8)

The following speech by Tim Eggar, Minister for Energy and Industry in 1994, reiterated the message:

> Today, the United Kingdom attracts more FDI than any other country in Europe . . . Our European partners are becoming more competitive . . . we are competing for new investments in an ever tougher market . . . We have a pro-business environment that is unequalled in Europe. Commitment to deregulation has played a major role in securing the level of inward investment . . . We have no foreign exchange controls, nor restrictions on spending profits abroad. We have a transport infrastructure that provides fast and easy access to the rest of Europe . . . the English language . . . [and] the best available combination of

a skilled and flexible workforce, with lower production costs than our neighbours. By coming to Britain, inward investors get access to the single European market *without the costs of the Social Chapter* . . . UK non-wage labour costs are below those of nearly all other European Union countries. It was Jacques Delors who remarked that the Social Chapter opt-out 'makes Britain a paradise for foreign investment' – a most helpful endorsement of the [former Conservative] government's policies. Inward investors also know that they can negotiate single and non-union agreements with an adaptable workforce that is ready to learn new skills and willing to work flexible hours . . . The UK strike rate has been below the EU average for each of the last nine years. (Eggar, 1994; emphasis added)

Despite the fact that the Labour government has subsequently signed up for the EU's Social Chapter, introduced a national minimum wage and made the joining of trade unions easier, these proposals have not seriously altered the general sales pitch used to sell the UK to foreign investors. The Labour government has tried to assure business that, taken together, its labour market, taxation and social policies continue to make the UK a better place to invest. The Labour's Party's 2001 *Business Manifesto* spelled out the central role that tax competition continues to play in the UK government's strategy to attract inward investment:

The taxation system is one aspect of a country's environment of relevance to inward investors and others. We have created a tax framework which encourages investment and enterprise by reducing the rate of corporation tax, making capital gains tax more pro-enterprise, introducing incentives for R&D and making permanent the capital allowances available to small firms. Taken overall, UK business taxation levels, including employers' social security contributions and corporation tax, are competitive with the rest of the European Union. This is a situation we intend to maintain. In Europe, we successfully opposed a withholding tax for savings income. We will continue to make the case for fair tax competition, not tax harmonization. (Labour Party, 2001)

The 2002 statement on the Invest in Britain Bureau's web pages also explained that Britain had a 'skilled and adaptable' workforce coupled with 'high standards of education with a strong emphasis on vocational education and training'.[2] It went on to state that:

Labour market regulations in the UK, including working hours, are the most flexible in Europe, and staffing costs are highly competitive . . . Plus, the UK has the lowest main corporation tax rate of any major industrialised country, and there are no additional local taxes on profits.

Thus, successive British governments since the late 1970s have responded to structural pressures by lowering corporate taxation and deregulating labour in order to compete for inward investment. Neither would it have been possible for any incoming government to shift drastically away from this. Any change to the UK's industrial strategy in the short to medium term would have proven very difficult. As Rhodes puts it:

> low corporation taxes and social charges are vital, not just for sustaining Britain's FDI dependent manufacturing sector, but also for meeting the demands of the large low-wage, low-skill, low-productivity sector of the economy . . . (Rhodes, 2000)

At the same time, competing in this way has amplified structural power as dependence on those forms of capital that are attracted by low-cost, flexible labour and low taxation increases has forced governments to review constantly their fiscal and regulatory competitiveness. KPMG, in its 2003 survey of corporate taxation, for example, stated that:

> Whilst the figures show that the UK's corporate tax rate is at a respectable 30, this is only just below the EU and OECD average rate. And with increasing competition from countries such as the Netherlands, Belgium and Ireland . . . there is no room for complacency. (KPMG, 2003)

Such reductions in corporate taxation do not benefit all businesses, of course, and some companies may even suffer as a result of such policies. For instance, indigenous firms may face tax increases in other forms in order to make up for lost revenue from taxes on the profits of mobile capital. Still other companies may benefit from more extensive public provision. Some commentators have suggested that this fact weakens the possibility that states can truly act in the interests of business under the conditions of globalization (Yeates, 1999). In reality, governments can and do react to structural and agency pressures under globalization but they do so in different ways at different times. Moreover, the ways in which they act and react to corporate power impacts on subsequent levels of corporate power. Responding positively to structural pressures will often serve to reinforce and amplify structural power in future. To be clear, the more that states give in to structural power – willingly or otherwise – the more they will be likely to feel the impact of structural power in the future. As Cerny points out, those states which deregulate their economies in response to global pressures will find it very difficult to re-regulate them (Cerny, 1997). This is something that is often forgotten by those who stress the freedom and autonomy of states to resist globalization and corporate power. In the British case, given the UK's high level of dependence on foreign investment, and given that the strategy to try to attract and retain mobile capital continues unabated, it is clear that it would feel far greater structural pressure from any future attempts to regulate labour or increase taxation on employers than Germany or even

France. Whilst many commentators stress the fact that states still have choices under globalization, it is probably more accurate to say that some states have more flexibility and more policy options than others.

Under these conditions, we would expect to see expansion in those parts of social policy that contribute most to profitability and competitiveness – education, training, public transport infrastructure and so on – along with the simultaneous withdrawal of those services which undermine, or at least do not promote, private markets, and this is precisely what has happened in the UK. Rather than forcing spending cuts, therefore, increased structural power steers public spending towards provision that promotes the interests of business. These changes are not inevitable; the greater the dependence of a state on mobile capital, the more likely it will be forced to compete for mobile capital by introducing these types of reforms. However, the extent to which a state is dependent on mobile capital is also an outcome of past decisions and power struggles played out between labour, state agents and organized business.

If a future government wanted to try to resist corporate structural power in the UK, therefore, it would first have to transform the British economy to one which is less dependent on mobile capital, low labour costs and regulation. Companies attracted to the UK because of low-cost labour might reduce investments if the government tried to impose greater regulations or higher taxation. Radical changes would therefore take a huge amount of political determination, though quite how much would depend on other countervailing forces to business, including the organization and determination of labour. However, the Labour Government, under Tony Blair, appears to be going in the opposite direction – reinforcing rather than challenging corporate structural power. It has to be borne in mind, however, that as well as responding to structural pressures, the UK is, like other nations, responding to the demands and preferences of an increasingly well-organized business lobby. The nature of these demands and how they are played out takes us away from structural power to agency, and leads us to consider the position and strength of organized business on various levels.

The strengthening of business agency since the election of Labour in 1997 runs counter to the policies of most previous UK governments. For some governments, shutting out certain business interests was a political goal. In other instances, governments have been eager to engage with business, but frustrated by a lack of credible business organizations able to speak on behalf of their constituents (Grant and Marsh, 1977). Within the largely adversarial and uncoordinated British polity, structural pressures have tended to take precedence over agency, and governments have tended to react to structural pressures, rather than the direct inputs of business, in making adjustments in public policy.

To be clear, the potency of agency power is determined by institutional factors, primarily business access to the policy arena, as well as the willingness of governments to grant such access to business and, aside from Labour's brief experiment with corporatism in the 1970s, UK policymakers have tended to be selective in the types of business lobbies they engage with. This is in contrast to other states, especially Northern European states, where particular business organizations are recognized as key brokers for industry. The 1980s Conservative governments, for instance, felt that their radical plans for transforming the economy would not allow for the type of corporatist interest intermediation that Labour had previously tried to set up, and were much more selective about which business voices they were prepared to listen to. The early Thatcher government in particular tended to favour financial above industrial interests, and the interests of sympathetic entrepreneurs above organized interests. As a result, the Confederation of British Industry (CBI), the UK's largest employers' association, which tended to be critical of Conservative economic policy, was excluded from the national policy arena during the early 1980s in favour of the more sympathetic Institute of Directors (IoD) (Grant and Marsh, 1977). As a result, the CBI was actually consulted less after the election of the Conservatives in 1979 than it had been under the previous Labour administration (Grant, 1993). The early effect of this was that the relative cost to the CBI of exercising its voice at the national level was increased and this forced the organization to examine new ways of how it might more effectively concentrate its resources on influencing government. One of its solutions was to place greater emphasis on mechanisms of business influence that were relatively inexpensive (Farnsworth, 1998). It sought to improve its lobbying techniques through the production of clear and concise policy statements, and made more efforts to communicate the view of business direct to the general public through the greater use of press releases and by staging its high-profile annual conferences. It also sought to politicize and empower individual business members and its regional branches to become more actively involved in local decision-making. Under the provisions of the 1984 Rates Act, local authorities were required to consult with local businesses before setting local taxation rates; and gradually, in a whole range of areas from local planning to educational provision, services were forced to incorporate business interests into their decision-making structures so that provision more closely reflected the needs of business. This coincided with central government placing increasingly rigorous requirements on local councils and service providers to ensure the integration of business representatives within decision-making structures.

The Thatcher government's reluctance to engage organized business on key policy matters, however, did not extend to local services. Business people were a crucial element of the Conservatives' managerialist revolution which involved the transformation of state management cultures and the imposition of private sector values into public services (Clarke and Newman, 1993; Cutler and Waine, 2000). This revolution involved the removal of elected representatives from local services and their replacement with business people and, as a result, the private sector came to assume greater responsibility and leadership roles in areas previously monopolized by local authority representatives including in education, housing, care services and transport (Oatley, 1998). Senior business people were guaranteed, by statute, a majority presence within the Training and Enterprise Councils (TECs), for example, and in other areas, most notably public health bodies and state schools, the government replaced local government representation with business people and other 'stakeholders', and replaced locally administered financing with direct central government grants, backed up with increasingly large amounts of private funding. By the time Labour came to power in 1997, therefore, business needs were already shaping social policy outcomes and business people had been well embedded into key services. The Labour government enthusiastically built upon Conservative policies by seeking to embed business people, firms and values still further into public services. It has since created the opportunities for the increasingly formal engagement of business people and companies into state bodies, including regional development agencies, schools and hospitals.

Under New Labour the voice of business has grown still stronger. Business has been consulted more frequently and co-opted into various decision-making bodies in a deliberate attempt to increase the voice of business in Britain (Hay, 1999). Labour's priorities were outlined clearly by Blair at the CBI's 1997 conference, which was the first time the employers' organization had been addressed by a sitting Labour prime minister:

> when I last addressed the CBI's National conference, I promised a new partnership between New Labour and business. Six months into office, we have laid the foundations of that partnership. There are business people bringing their experience and expertise by serving in Government, on Advisory Groups, leading task forces, all contributing to the success of Government policy. But there is also great commitment and enthusiasm, right across the Government, for forging links with the business community. That this is the approach of a Labour government is of historic importance. It demonstrates we are entering a new era in British politics. (Blair, 1997)

So successful was this strategy that the outgoing president of the CBI, Clive Thompson, explained to the *Financial Times* that the working relationship between the CBI and the Labour government was, in 2000, 'probably closer than at any time in the last 25 years', and certainly closer than under the Thatcher or Major governments (Brown, 2000).

Reaching out to business in this way would, it was felt, lend legitimacy to the New Labour project; business was viewed as an important ally against entrenched interests within the public sector (Falconer and McLaughlin, 2000, p. 122). Moreover, business actors were thought to have valuable experience that might be utilized in order to devise innovative solutions to institutional problems within public services. These pressures, coupled with the government's desire to steer public services towards the needs of business, led to a concerted effort to create new opportunities for business people to fill strategic decision-making positions from the highest levels of government down to individual services. Even more radically, business has been invited to bid to take over the running of essential services, including schools and hospitals.

Thus, in many respects, there has been little need for organized business and firms to seek to influence social policy during recent years since, in most ways and in most areas, policy has been steered in a pro-business direction by politicians. Governments have responded to structural pressures in different ways, but in the UK context they have increasingly led to cuts in spending on unproductive services and expansion in productive services. Business interest in social policy has been triggered wherever it has perceived provision as either harmful to firms or where it felt that provision could be better steered towards the needs of employers and, beyond this, it has been enough for business to limit its campaigns to the major issues of tax reform and labour costs. Provided business could secure for itself cuts in general and corporate taxation and commitments to reduce spending in non-productive areas, it could limit its focus to these key issues.

Where it has exercised its voice, business has responded positively to government initiatives and, has itself, pushed for a more corporate-centred social policy: public provision funded through taxation on labour rather than business; deep spending cuts, especially at the local level and in unproductive welfare; cuts in corporate taxation, especially local business rates; the increased targeting of social provision to a narrower 'deserving' recipient base for social provision; an increased emphasis on vocational skills within education; increased participation in post-compulsory education and training; the establishment of tighter educational targets; increased business involvement in key services; an increased reliance on outsourcing; increased targeting of social provision and reliance on private provision; and increased private sector inputs into services (see Whitfield, 2001; Farnsworth, 2004; Pollock, 2004). This renewed agency capacity, itself entrenched and expanded by New Labour, has been complimented by increased structural power and a sympathetic international discourse so that British business has not had to battle as hard as it might otherwise have had to in order to promote these kinds of reforms. For the most part, it has been enough for business to limit its campaigns to issues of central importance to business: regulations, tax reform, access to markets and labour costs.

CONCLUSION

The issue of business power has been generally neglected in the public and social policy literature although it has re-emerged as a key concern of globalization theorists. However, the issue of business power and influence has generally been treated poorly in the literature. Discussions of business power have tended to be rather sweeping and simplistic.

The aim of this chapter has been to develop a more robust theory of business power within global capitalism. The key argument of the chapter is that globalization has strengthened corporate structural and agency power. However, the extent to which this has occurred depends on institutional frameworks, economic context, policy level (whether international, regional or local) and policy area. Structural power is more important in certain contexts, agency power in others. Thus, it is impossible to make sense of the power and influence of business under the conditions of globalization unless the analysis simultaneously takes into account structural and agency factors. It is also necessary to examine the multiple layers of decision-making: the international, regional and national.

The case of the UK illustrates well the fluctuating importance of structure and agency at these various levels. Business agency power has increased at the international and regional levels although structural power, beyond the level of the nation state, has been less important. At the national level, structure and agency continue to vary in importance according to national situations. In the UK, ongoing structural pressures and a more historically adversarial relationship with business has led the government to investigate new ways of embedding business within a range of decision-making and welfare service institutions. A business-sponsored race to the bottom is unlikely to occur in the short term, but the development of more business-centred welfare provision, influenced by both structural and agency factors, is more likely in future.

NOTES

1. For a review of the evidence on this see Farnsworth and Gough (2000); Farnsworth (2004).
2. http://www.invest.uk.com/investing/benefits_of_the_uk.cfm, accessed November 2002.

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