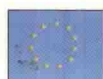


GOVERNMENT BUSINESS



AMERICAN POLITICAL ECONOMY IN
COMPARATIVE PERSPECTIVE



RICHARD LEHNE

Government and Business

American Political Economy in Comparative Perspective

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To

Raymond H. Bateman and John R. Mullen,

in appreciation for their achievements
in promoting the understanding of relations
between government and business

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Preface

THERE IS NOTHING inevitable about the linkages between government and the economy. A nation's political and economic arrangements are not the result of irresistible forces but of a myriad of societal decisions that reflect its understanding of how best to achieve material well-being and secure its other political and social goals. This book argues that the success of a country's economy depends ultimately on the quality of its political judgments, and it maintains that the best way to analyze the American political economy is to investigate government, business, and the complex yet subtle relationships between these two sets of institutions.

Instructors responsible for courses that explore politics and the economy face a difficult assignment. They need to assess the conduct of an especially dynamic collection of institutions in an exceptionally tumultuous age. Doctrines and conceptual formulations that not long ago seemed to convey the essence of the American experience suddenly seem terribly inadequate. Six or seven years ago instructors explained why the U.S. economy was in the doldrums; now they must account for why it appears to be soaring to untraveled heights. This book addresses its subject by examining the environment that shapes government-business relations, investigating corporate activities in the political arena and appraising public policies affecting business. It provides full coverage of politics and policy, yet it is sufficiently concise to be used as a core text that allows instructors to emphasize the approaches they prefer.

The crossnational comparisons to be found here acknowledge the increasingly international scope of economic activity, and they provide a framework for sophisticated discussions that can help students escape the confines of American practices and policies. The book draws upon contemporary events to convey the excitement of relations between the government and the economy, and it offers web sites at the end of each chapter to guide students toward updated information and further analyses of controversial issues. Additional supplemental resources are to be found at the publisher's web site: www.chathamhouse.com/lehne

This book owes much to the students who have enrolled in the Rutgers Government and Business course in past years. They forced me to reexamine questions and reconsider answers more often than I sometimes appreciated, but the result has been constructive. They have led me to avoid jargon and make this book accessible to readers who have not majored in political science or economics.

Numerous guests from government and business have visited with the students over the years and shared their insights and experiences: John Degnan, Richard T. Dewling, James DiEleuterio, Dale J. Florio, Governor James Florio, Steve Forbes, Bob Franks, Mark Grier, Alfred Griffith, Governor Thomas H. Kean, Jane Kenny, Jaynee LaVecchia, Francis L. Lawrence, Gualberto Medina, Stewart Pollock, John P. Sheridan, Baron Hans-Heinrich Freiherr von Stackelberg, Herbert H. Tate, Richard T. Thigpen, Senator Robert Torricelli, and Governor Christine Todd Whitman. I appreciated their generosity and benefited from their analyses. This book would not have been possible without the efforts of scholars whose work is quoted and cited in the following pages. I have used the conclusions of their research for my own purposes, but I trust that I have not abused the integrity of their work in the process.

I discussed this project with Edward Artinian of Chatham House Publishers before his untimely death, and I am grateful for the support of Ted Bolen and Bob Gormley who have carried on his work. I have benefited from the insightful comments of James Anderson of Texas A&M and the anonymous reviewers who together mounted a valiant albeit only partially successful effort to save me from the errors of my ways. I appreciated the assistance of Katharine Miller and Ernest D'Angelo in bringing the manuscript to publication.

This book is dedicated to Raymond H. Bateman and John R. Mullen, both of whom have departed from their normal careers to play a vital role in developing this book. They have demonstrated to thousands of Rutgers students that the relationship between government and business is a compelling topic that warrants the serious attention of citizens, public officials, business leaders, and scholars alike. As American society becomes more complex and the global environment more challenging, this book seeks to continue their efforts to promote a fuller understanding of the conditions that will secure the benefits of political and economic success for us all.

INTRODUCTION

New Spotlight on an Enduring Topic

EXTRAORDINARY CHANGES ARE taking place in the relationship between government and business in the United States and around the world. Political developments, economic trends, and emerging values have challenged the governmental arrangements that shaped the world's economies in the post-World War II era. While the institutions that guide the American economy have achieved remarkable success, how or even whether these institutions can adapt to the realities of a new global economy is still uncertain.

Debates about the role of government in the economy are both passionate and enduring. They are conducted in academic lecture halls as well as in the daily lives of citizens, companies, and government agencies. The enterprise implicit in these debates is actually *an exercise in social problem solving*. The goal is to design a governmental regime that will respect the country's political choices, promote its economic well-being, and enrich its cultural life.

Evidence of new thinking about the relationship between government and industry has appeared at every turn. Doctrines that were once the mainstay of government policy toward business have been subjected to new scrutiny: trade regimes have been reshaped; antitrust doctrines redefined; government regulation reformed; and industrial policies revised.

Policy analysts argue that traditional relationships between government and business are not suited to the competitive requirements of the global economy. The United States, they maintain, must rethink its assumptions about the responsibilities of government and business if it is to defend its political values and economic status in the years ahead.

Students of business administration contend that a fundamentally new "social compact" between business and society has been forged. Business organizations can no longer be evaluated simply in economic terms; businesses are now responsible for helping society achieve a broad range of societal objectives.

Economists have concluded that contemporary multinational, multiproduct enterprises are more self-sufficient than firms of past eras. Technological and

organizational innovations have increased corporate autonomy, confounded governmental efforts to control corporate behavior, and transformed conventional ties between business and the state.

Finally, students of politics were impressed by the ability of Germany, Japan, and the nations of Southeast Asia to devise policies in the 1960s and 1970s that enhanced their political stature and economic well-being. Economic problems of the 1990s indicated, however, that these business systems had defects not previously recognized. In the United States, the 1960s and 1970s were a period of both governmental activism and economic stagnation, but the revival of the country's economy in the 1990s had surprisingly little to do with governmental policy. The desire to draw appropriate lessons from these events leads political scientists to reexamine public policies toward business and to reconsider the nexus between the economy and the state.

It is time to take stock of contemporary relations between government and business. Government is viewed in this book not as an impediment to a nation's goals but as a tool for accomplishing those goals. It is acknowledged here, however, that tools can be used more effectively in some circumstances than in others. Governmental arrangements and corporate structures are unendingly diverse, and such institutions produce a complex array of societal consequences. There are no handbooks for creating a country's economic and political system. In designing national business systems, there are no permanent solutions, and no final victories.

Bonds between government and business have been forged as countries have responded to discrete problems, and they have acted in terms of their own traditions and resources. This book focuses on government-business relationships in the United States, but it also compares U.S. behaviors and institutions with those in Great Britain, Germany, and Japan. Great Britain is included in the analysis because it was the world's first industrial nation, and the United States, Japan, and Germany are examined because they are the world's three leading national economies. These nations reflect different varieties of capitalism, have followed different paths of development, and present different governmental and political arrangements. They also possess their own unique qualities that structure their participation in the world's emerging knowledge-based, international economy.

This book's analysis sometimes places the behaviors and institutions of our four countries beside the inchoate structures and practices of the European Union (EU). The European Union is a governmental organization composed of fifteen European states. EU institutions have been gradually gaining governmental authority for four decades, and they may eventually replace the individual nations as the continent's basic governing structure. European integration, however, is an uneven process. European traditions are still being defined, and EU institutions have greater impact in some policy areas than in others. When this book examines topics where EU policies and practices are significant, the comparisons will

include both European and national dimensions. In other cases, the analysis will rest on an examination of Germany, Great Britain, Japan, and the United States.

At one period or another, each of these countries has been a star in the world's economy. Each has created a business system that became a model for other nations, and each achieved a level of prosperity beyond the reach of a large majority of the world's citizens. As Thomas McCraw points out, however, each of these nations also has episodes in its history that are anything but admirable.¹ Great Britain treated some people in its empire cruelly, Japan committed atrocities against people in the lands it occupied before and during World War II, the United States permitted enslavement of African Americans, and Germany of the Nazi era organized the mass murder of millions of its citizens and others who came under its control. While this book investigates contemporary relations between the state and the economy, McCraw reminds us that these events occurred in capitalist countries. While they were not the direct result of capitalism, these countries certainly did not prevent these tragedies from happening.

PLAN OF BOOK

This book examines the relationship between government and business today and considers how this association may develop in the future. It explores the environment in which relations between government and business take place, the strategies adopted by business to influence governmental actions, and public policies that bind business to the state.

Part I of this book examines the context in which relations between government and business are shaped. The history of government and business provides the foundation for the practices we see today. What role did government play in promoting economic development in the early years of U.S. history? How has the nature of government and business changed over the decades, and what are the implications of these changes? What features of the country's political heritage result from its formative period, and what lessons do these events offer to those seeking to design a constructive relationship between government and business for the future? What were the hallmarks of industrial development in comparable countries? Chapter 1 addresses these questions.

Countries design their governing arrangements to help them secure their political, economic, and social goals. There are as many ways of creating government-business relationships as there are countries. Chapter 2 first examines the analytic models scholars have devised to describe the relations between business and the state, and it then considers the economic functions performed by the U.S. government in different eras. To appreciate more fully the magnitude of the task of designing relations between government and business, chapter 2 also presents capsule views of the German, British, and Japanese political-economic systems.

Government-business relations reflect a nation's system of public opinion and interest representation. Chapter 3 focuses on this advocacy environment.

How trusting or how skeptical of business were Americans in the 1990s? What were the bases of their judgments? What changes have occurred in the advocacy environment in recent decades, and how do these changes affect the activities of labor unions and citizen groups? How has the media affected relations between business and the state?

The American national government is composed of large institutions that possess their own incentives and dynamics. Chapter 4 scrutinizes the major institutions and operations of government and compares them to the governmental institutions in Germany, Japan, and Great Britain. It assesses the assertion that governments in other countries are better able to manage government-business relations than is government in the United States. The chapter also examines the governing institutions of the European Union.

Perhaps the most far-reaching change in the environment for conducting relations between government and industry in recent decades is the internationalization of the American economy. Today, essentially all major American firms are active in foreign markets, and most must defend domestic marketshare against international competitors. The growth of the global economy is said to have reduced the ability of the American government to fashion its own programs and pursue its own policy goals. Chapter 5 assesses the emergence of the global marketplace, explores the features and strategies of multinational firms, and investigates various varieties of capitalism.

Corporations are active in both the marketplace and the political arena. Part II of this book investigates companies' involvement in politics and explores their strategies for affecting public policies. Modern corporations possess distinct legal and organizational arrangements, and these features of firms are examined in chapter 6. What roles are played by owners, workers, managers, and institutional investors in guiding corporations? Do American corporate leaders possess a distinct management style that harms U.S. competitiveness in the international marketplace? How do the characteristics of American corporations compare with those from other countries? What practices have American firms devised for managing public affairs programs in the United States and in other countries?

The relationship between business and government in a democracy is an uneasy one. The position of business rests upon values that contradict the ethos of popular rule. Chapter 7 examines the legal status of business as a political actor and reviews the debate about the proper role of business in politics. The chapter also analyzes the activities of business associations in the United States and compares U.S. business associations with associations in other countries. What roles do industry groups play in Germany, Japan, and Great Britain, and why do some analysts argue that these groups are more successful than their U.S. counterparts?

As government influence over business has become more pervasive in recent decades, business efforts to influence governmental decisions have multiplied. Influencing governmental decisions has become a growth industry that focuses on office-

holders, election campaigns, and party behavior. Chapter 8 analyzes business efforts to lobby Congress and participate in electoral politics. It assesses the circumstances in which businesses are active, the tactics and strategies used by business interests, and the advantages and handicaps of defending producer positions.

Industry also seeks to shape public policy by affecting the policy actions of administrative agencies and the adjudication of policy issues through the courts. Activities directed toward these institutions are probably more numerous and may be more significant than business contacts with legislatures and chief executives. Chapter 9 examines administrative and legal relationships with industry in the United States and compares them to relations between business and administrative agencies in other countries.

Chapter 10 assesses business participation in politics by scrutinizing the role played by political parties in the various countries. It draws together findings from the earlier chapters and reviews recent research to investigate not only why businesses win in politics but also why they may lose. It seeks to evaluate the impact of business on governmental decisions and the political process, and it uses our comparative perspective to appraise the power of business in politics in our four nations.

Part III of this book documents the significance of the ties between government and business by exploring developments in six policy areas. The economy is a production and distribution system that affects not only producers and consumers but also communities and governments. Chapter 11 reviews the history of U.S. government efforts to manage economic policy and investigates the governmental institutions that undertake that responsibility. It also explores the challenges posed by changing economic circumstances and surveys the debates about the governmental action in a neoliberal age.

Regulation assumes different meanings in different contexts, but there is no doubt that it is one of government's most influential tools in guiding business behavior. Chapter 12 discusses the different modes of regulation and assesses their rationale, enactment, and implementation. The contest between regulation and deregulation has been a critical feature of governmental policy toward business in the past two decades. An investigation of developments in the telecommunications sector both explicates the features of this controversy and outlines various national styles of regulation.

The economist Paul Krugman has recently argued that it is now more important than ever before that students of politics understand the principles of international trade.² Chapter 13 outlines the logic of the arguments for liberal trade policies and examines the appeal of protectionism. It surveys the changes that have occurred in the international trading system in recent decades and the impact these changes have had on traditional doctrines and policies. New institutional structures and trading blocks have appeared in recent years, and the chapter concludes by assessing the prospects for these policy developments.

The growth of the global economy and the dynamism of new technologies have returned antitrust issues to a critical position in the relationship between government and business. Chapter 14 first explains the origins, character, and evolution of the American antitrust tradition, and it then analyzes current antitrust issues by examining cases from the computer industry. Other countries approach antitrust issues on the basis of other goals and assumptions, and the chapter compares their approaches with the American tradition.

The United States has much more involvement with industrial policies than is usually recognized. The use of governmental authority to promote specific industries finds examples, for example, in the rail, housing, computer, health care, and airline industries and in countless other industries. Chapter 15 investigates the history of industrial policies in the United States and in our other countries and considers the role of such policies domestically and in the increasingly competitive global economy.

Businesses do not exist in a social vacuum. They are part of the broader society, and they are affected by a country's general policies. Chapter 16 examines the relationship between business and social policy. What are the consequences for business of social policies? How does the country decide whether business or government is responsible for certain social programs? How is the relationship between industry and social policy likely to develop in the next decade?

The relationship between business and government inspires more heated rhetoric in the United States than in any other major country. The stature afforded business in the United States reflects the judgment that quasi-independent businesses provide the society greater benefits than firms that are tightly controlled by government. This policy judgment, however, is a complex one that reflects past events as well as current institutional developments, global trends, and societal expectations. Today's judgments about the balance between industry and government are not shared by everyone in the society, and they are certainly not permanent.

Judgments about government-business relations are continually reappraised as values change and events transpire. The goal of this book is to provide a framework that clarifies the nexus between politics and the economy. It seeks less to promote doctrines than to identify issues and present analyses. This book's principal objective will be realized when readers begin to reach their own conclusions and make their own contributions to shaping the relationship between government and business for the decades ahead. The exercise in social problem solving continues.

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PART I

Environment for Government- Business Relations