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Business and Politics: A Relationship under Challenge. Introduction

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Abstract
This collection of articles demonstrates the variety of ways in which business interacts with politics. This can only be understood if we recognise the heterogeneity of business. Indeed, capital vs capital conflicts are often now more important than those with traditional foes. Reputation is an important driver of business responses to political challenges, not least in relation to climate change. Government remains reliant on information and consent from business, but can face business down on particular issues.

Keywords: business, climate change, Brexit, EU, capitalism

THIS COLLECTION of articles maintains that the relationship between business and politics is more complex than is often assumed. It is also a relationship that is undergoing a process of change. Among the sources of change are greater heterogeneity and fragmentation of business interests, leading to an increase in the salience of capital *vs* capital disputes and the challenges that populist governments pose for businesses that consider they need to adjust to wider changes in societal values and priorities. Populists often perceive business as part of established elites that are opposed to their agenda, played out in a conflict between nationalism and protection on the one hand, and liberalism and globalism on the other—as in the recent French presidential election. It should be noted that most business persons are not political in a partisan sense and many of them do not hold politicians in high regard, or see them as having a good understanding of how business works.

Businesses in market economies exist to make a profit and a return to shareholders and managers. These pressures are strong in countries like the US and the UK, where short-term perspectives are reinforced by stock markets with increasingly active investors and the presence of private equity firms and hedge funds. However, in practice, business objectives are much more complex, particularly in an era where there is a greater emphasis on environmental, social and governance (ESG) issues. In the US this has led to a backlash by conservative investors, who fear that what they perceive as a 'woke' movement is diverting business from its real purpose, to make money.

Businesses are very concerned about their reputations: reputational damage can affect their viability. This is particularly the case with consumer-facing brands. However, there are limits to the constraints resulting from reputational considerations. P&O Ferries were recently prepared to break employment law to replace long-serving staff with cheaper contract workers, claiming that was the only way to save the business. Although most businesses made a rapid retreat from involvement in Russia after the outbreak of the war in Ukraine, this happened more slowly in the case of food processing companies with a substantial presence there, such as Danone and Nestlé.

Nevertheless, there are forces that draw business and government together, as well as distancing them. They may not appreciate each other, but they are often locked in an unavoidable symbiotic relationship. Economic success is important for a government's re-election chances and a cooperative relationship with business can help to deliver that. In countries where the civil service is made up of generalists or lawyers, the technical expertise of business associations may be essential to effective policy making. This may particularly apply to the EU, where the Commission does not have enough staff to deal with all the legislative tasks it faces. In some polities, notably the US, politicians may be reliant on business donations to fund expensive election campaigns. Former ministers, legislators or civil servants may find lucrative employment in business when their political or bureaucratic careers end, by going through the 'revolving door'.

The contributions to this special section are understandably rather Westminster or Brussels-centric given the constraints of space. It should be pointed out that the devolved administrations (DAs) in the UK have significant powers and business has had to organise and devote additional resources to influencing them. Their decisions can impact on business viability. For example, the hospitality industry in Scotland found it more challenging to recover from the pandemic because of enhanced restrictions relating to mask wearing. The DAs may also in time develop an agenda-setting function rather like California in the US, developing policy initiatives for which there is then pressure to replicate elsewhere. Business also needs to have contingency plans in case Scotland should become independent.

The politics of support and the politics of power

One way of understanding the tensions between business and government is through Andrew Gamble's classic distinction between the politics of support and the politics of power. The politics of support is concerned with securing an electoral majority, but the politics of power relates to implementing a programme in office. For instance, electorates often want to restrict immigration, and a party that fails to advance policies of that kind may find itself being outflanked on the right. For its part, business generally favours relatively liberal immigration policies to fill gaps in the workforce and also (although it may not admit this) to hold down the price of labour.

In the case of the UK, the Leave faction effectively took control of the Conservative Party and promised to 'get Brexit done' with an 'oven ready solution'. This promise resonated with many voters in 'red wall' seats and enabled the Conservatives to win a substantial majority in the 2019 election. Business was overwhelmingly in favour of remaining in the EU, although consumer-facing companies were often reluctant to say so for fear of upsetting customers who wanted to leave. In any event, Brexit undoubtedly worsened the divide between business and the Conservative Party, leading Boris Johnson to use an expletive to describe his view of business.

Considering the US through the lens of the politics of power and support, Wilson posits that the Republicans' status as the party of business is fragile, not least because of Trumpian tendencies to pursue a politics of support that goes against business interests, particularly on free trade. He notes in his article that the relationship of the Trump administration with business was 'complicated' and Trump personally criticised a leading business organisation, the US Chamber of Commerce. Wilson's argument resonates with the British experience, particularly the deteriorating relationship between the Conservatives and business.

Business influence in different arenas

Ganderson tackles the Conservatives' failure to protect City interests around Brexit. As he shows, the influence of the financial services sector on governments, particularly Conservative ones, is not what it was. The Labour Party feels a greater imperative to win financial services support because it is more vulnerable to criticisms by them, while the Conservatives can to some extent take that support for granted (though it is only a minority of firms and individuals that donate to them). Because of their links with the City, Conservatives may sense that its much vaunted structural power has been waning or perhaps was never as strong as was claimed.

It is important to unpack what we mean by that much used, but rather ambiguous term, 'the City', recalling that the 'fractions of capital' debate led to the conclusion that the political displacement of the City was based on an alliance with footloose multinational capital, not least in the extractive industries. Financial services have geographically dispersed beyond the City itself, for example to Canary Wharf and Edinburgh, but this shift of location is not the most important change. Power structures and relations altered considerably. Fifty years ago, the Governor of the Bank of England could represent the City as a kind of secular pope, *urbi et orbi*, turning up in his Rolls in Downing Street to instruct the Prime Minister. This is no longer possible, because the financial services sector is much more heterogeneous. One indicator of this has been the emergence and greater displacement of professional business associations representing particular sectors, such a bankers and insurance. Away from these long-established sectors, hedge funds and private equity do not feel themselves bound by traditional conventions.

The EU institutions might be expected to be more business-friendly territory as electoral considerations are more distant, but Cowen and Tarrant's study shows that the EU is prepared to take on big (US) business. Big business can lack leverage, specifically when the businesses in question are not major employers in the countries with influence over decision making in the EU. Coen and Katsaitis show that UK businesses are seeking to maintain influence over EU policy making, but Cowen and Tarrant cast doubt on whether they can really do so without 'their' government in the room.

More mature industries sometimes consider that hi tech companies exert greater influence than they do. However, the case study of the EU's Digital Markets Act by Cowen and Tarrant brings out the limits of corporate lobbying by the GAFAMs (Google, Amazon, Facebook, Apple and Microsoft) as they are colloquially known. Other voices have been heard and the draft legislation is not in the process of being watered down, with the text which is eventually adopted by the Council and the Parliament likely to be even less palatable to the GAFAMs than the Commission's initial proposal. The assessment by big tech companies is that the battle on competition law has already been lost: 'There's already a sense in Europe that the mood music for big tech has changed. Antitrust bodies in member states have been empowered to target major technology companies even before the rules come into force in Brussels.'[1]

Resource dependency of government

A different view of the power of business is provided by Kuzemko and Meggitt. Kuzemko gives an account of the resource dependency of government on information held by business and notes that large, incumbent utility companies in the UK—historically referred to as the 'Big 6'—have had the ability to influence government policy and regulatory decisions. Incumbent utility companies also maintained a more direct influence over regulatory change through majority representation on the Ofgem review boards responsible for agreeing, or otherwise, regulatory changes. Kuzemko's article also helps us to understand why companies may favour regulation as an entry barrier to a particular market, as well as a means of avoiding reputational damage. Regulation is as much about making a market as constraining it. In the UK energy industry, the Big 6 companies have long argued that the regime is too light touch, failing to assess adequately whether new entrants had financial models sufficiently capable of withstanding price shocks.

This dependency is also a theme of Meggitt's article. He shows the 'company state' in action, whereby individual companies seek to gain an inside track, sometimes to the disadvantage of other companies. Firms that depend for a large part of their business on government contracts, such as pharmaceuticals, civil engineering and the defence industries, may have a particularly close relationship with government, especially where there are monopoly suppliers facing a monopoly purchaser. Meggitt discusses how this relationship has evolved over time, with the Covid-19 pandemic leading to private providers being treated as partner organisations. Reduced competition, the consistent failure to publish required procurement notices and a corresponding drop in transparency created undue financial and commercial advantages for those with a close relationship with the

[1] J. Espinoza, 'How Big Tech lost the antitrust battle with Europe', *Financial Times*, 21 March 2022.

government, as well as a loss in opportunity for competitor public service companies. In general, it should be noted that companies that rely on public contracts are more likely to be relaxed about higher levels of public expenditure.

Unifying business interests and promoting them through a representative organisation might seem to offer a route to greater and more sustainable influence over policy, but this has not happened in the UK. This reflects the extent to which the UK, like the US, conforms to the model of a 'company state' in which direct relations between big companies and government are significant, while in an associative state like Germany, business associations are seen as essential intermediaries. Direct company representation using government relations divisions (which have a variety of titles) have developed over the last forty years, at first in the Anglo-American 'company states', but the practice has also become widespread at the EU level, as Coen and Katsaitis show in their contribution. Kuzemko refers to the lobbying teams maintained by big energy corporations. It should be noted that both associations and companies may use public affairs consultants for specific lobbying tasks, particularly in relation to legislatures.

Jones's article shows just how weak business influence is in the important, if prosaic, area of labour market policy. There seem to be no mechanisms for meaningful dialogue, with 'consultation' exercises largely missing the point. The interviews conducted by Jones illustrate the heterogeneity and relative weakness of smaller businesses. Small businesses range from micro businesses to quite large manufacturing enterprises. Tensions between large and small businesses particularly arise over delayed payments, which can be particularly important to enterprises that are effectively subcontractors to larger businesses supplying components or services. Smaller businesses have been able to use their political influence to secure favourable tax treatment, as in the UK, or protected structures, as with the German *Handwerk* system. In the absence of such structures, Kuzemko points out, UK government policy has favoured large scale offshore projects in which incumbent companies are involved, while being much less favourable to onshore wind and solar projects more likely to involve smaller companies.

Can the UK have an effective industrial policy?

Coulter argues that the failure to develop and implement a meaningful industrial policy reflects the absence of coordinative institutions at the national level. Governments under successive Prime Ministers have rewritten industrial policy around their favourite headline interventions. This difference between associative and company states mirrors a debate in the very influential Varieties of Capitalism (VoC) literature which forms a central theme in Coulter's article on industrial policy alongside growth models. He suggests that it implies that the UK faces particular challenges in implementing an effective industrial policy.

The VoC model distinguishes between liberal market economies such as the UK and the US and coordinated market economies, of which Germany is the prime example. Indeed, a persistent theme of political economy debate in the UK has been that Germany has discovered a superior *Sonderweg* that should be replicated in Britain, including stronger business associations. Firms and business networks have a central role in the VoC model developed by Hall and Soskice. It is argued in the VoC model that 'German business (owners and managers) have a "pre-strategic" preference for preserving the institutions of coordinated capitalism, independent of unions' or governments' countervailing power, and this accounts for the resilience of the German model in the face of globalization and declining union power.'[2]

Hall and Soskice are two of the most distinguished scholars of comparative political economy, but the VoC model is arguably showing its age. This is why the efforts of Baccaro and Pontusson to reconcile the comparative political economy tradition represented by VoC with the international political economy approach based on a globalisation paradigm are so important. They recognise the

[2] L. Baccaro and J. Pontusson, 'Rethinking comparative political economy: the growth model perspective', *Politics and Society*, vol. 44, 2016, pp. 175–207, at p. 178.

persistence of national diversity, but 'in contrast to the varieties of capitalism (VoC) literature inspired by Peter Hall and David Soskice, we do not conceive this diversity in terms of institutional equilibria that predate the crisis of Fordism in the 1970s.'[3] In a forthcoming book with Blyth, they emphasise how this debate is important in terms of understanding economic growth and stagnation.

The British Conservative Party and business

McMenamin and Schoenman have noted that 'the political party remains a relatively understudied actor in government-business relations. Indeed, there is very little systematic literature on the relationship between the two key organisations of capitalism and representative democracy.'[4] Where there are dominant political parties such as the LDP in Japan, or in the past the CDU in Italy, business may align itself with particular factions in the dominant party. Donations to individual legislators are particularly important in the US, as Wilson discusses in his article. He notes that there is no definitive proof that they are effective and business is sometimes defeated, but it is doubtful if business would spend so much money in this way if it had no impact.

The relationship between business and the British Conservative Party has often been more problematic than might be assumed. As Gamble points out, although the Conservative Party has always been a party of property, it has never been the mouthpiece for business interests in the way that it was once the mouthpiece for landed interests.'[5] Tony Blair saw a gap in the market when he aspired to make Labour 'the natural party of business'. The relationship has been more harmonious at some times than others and one of the key variables appears to be the preferences of the Prime Minister in office.

In the 1950s and 1960s the relationship could be mediated through informal relationships, such as those lubricated by the London clubs. The 1970 Heath government started by professing to pursue free market policies, but then reverted to tripartite arrangements. This set up some tensions within the Confederation of British Industry (CBI), as some business leaders wanted a market policy that was freer, while others favoured tripartite cooperation. Where there was agreement was that the government had failed to govern well, managing to get into a confrontation with the unions it could not win. Business people are generally pragmatists rather than ideologues and favour solutions over conflict. As a former CBI president ruefully reflected in relation to the miners' strike which led to the general election of 1974, 'The CBI and the TUC were very close to an agreement that could have got the government off the hook of its statutory Phase 3 wages policy as applied to the miners. But … the chance was missed and the Prime Minister decided to put the issue to the electorate.'[6]

For Mrs Thatcher, the CBI was part of the problem, not part of the solution, a legacy of cosy tripartite arrangements that had contributed to Britain's economic decline. Matters did not improve when the CBI's president promised a 'bare knuckle fight' with the government at their 1980 conference. Mrs Thatcher found the Institute of Directors (IoD) a much more ideologically congenial partner, trying to talk up the economy, while the CBI's pronouncements were more pessimistic. The IoD was always ready to back new initiatives to curb the power of the unions and consequently had a significant influence on employment law.

John Major was more willing to engage with the CBI, but the organisation was hollowed out by the experience of the 1980s. It never became a governing institution again in the way that it was from its government encouraged formation in 1965 through the tripartite years of the 1970s. To some extent, it has been outflanked by other organisations, in part because it is sought to represent business as a whole, with all the divisions that implies, rather than being primarily a voice for the manufacturing industry. The Engineering Employers Federation rebranded itself as

[3]Ibid., p. 176.

[4]L. McMenamin and R. Schoenman, 'Together forever? Explaining exclusivity in party-firm relations', *Political Studies*, vol. 55, no. 1, 2007, pp. 153–73, at p. 153.

[5]A. Gamble, *The Conservative Nation*, London, Routledge, 1974, p. 320.

[6]Viscount Watkinson, *Blueprint for Survival*, London, Allen & Unwin, 1976, p. 85.

Make UK, the manufacturers' organisation. The *Financial Times* warned in an editorial that 'the CBI needs to avoid falling into irrelevancy'.[7]

When David Cameron became Prime Minister in 2010, he set up a Business Advisory Council to replace Gordon Brown's Business Council for Britain. Meeting quarterly, it was supposed to offer advice on the critical business and economic issues facing the country. None of the members were drawn from smaller businesses and all of them were either chief executive officers or company chairs. In 2015 Cameron changed the entire membership, with seven of the twenty members drawn from the financial services sector. He was keen to have good relations with business, almost a cosy relationship, seeing himself as a salesman for the UK. These warm feelings did not, however, necessarily translate into business friendly policies. Cameron and Osborne boosted the minimum wage, bypassing the Low Pay Commission where business had a defined role.

Theresa May was much more inclined to keep business at arm's length. She distanced herself from business and focussed on issues such as improving corporate governance and fixing broken markets. When she became Prime Minister, she was determined to take on big business, giving speeches attacking high executive pay and proposing an overhaul of corporate governance that would put workers on boards. She promptly scrapped Cameron's Business Advisory Council. However, after her election setback in 2017 she reconvened a rolling group of about fifteen executives who met on a rotating basis—albeit only about three times. It involved meetings twice a year with sector-specific groups, such as banking, industry, technology and healthcare, with each group chaired by a prominent executive. That would commit the Prime Minister to up to twelve formal meetings with business leaders every year, a far more intense level of engagement than in the preceding two years. The Prime Minister also attended some of the more frequent meetings held between the then business secretary Greg Clark and the five main business lobbying groups. The government also set up an Industrial Strategy Council in 2018, chaired by Andy Haldane, then chief economist at the Bank of England. This was scrapped in 2021, a move criticised by the House of Commons Business, Energy and Industrial Strategy Committee as risking widening the gap between government and business at a time when productivity improvements were needed.

Relations with business have never deteriorated as much under a Conservative government as they have with Boris Johnson as Prime Minister. Coulter points out in his article that the CBI has long argued for a more effective industrial policy, but is particularly critical of the current government's approach in its Plan for Growth. Johnson has an affinity with buccaneers and disrupters, but is much less in tune with the corporate management world of big business, where decisions are carefully weighed rather than being taken instinctively. Big corporations are seen as part of a bureaucratic mentality that stands in the way of innovation and change. Johnson's shambolic and rambling speech to the CBI conference in 2021, and his attempt to represent the Peppa Pig water park as an example of innovation, reflected the fact that this was a setting he was not comfortable in and did not respect. He launched a new Business Council in February 2022 to mark two years of 'getting Brexit done', but it received scant media attention. However, some would argue that dealing with the Covid-19 pandemic brought business and government closer together.

The Business Action Council was set up in 2020 to provide government with a more coherent perspective from business in the context of the pandemic. The founding members were thirty-two organisations, including the CBI, the IoD, the Federation of Small Businesses (FSB) and the British Chambers of Commerce (BCC). It was set up by an old university friend of Boris Johnson, Maurice Ostro, a little-known former frozen yoghurt company owner turned aviation and jewellery magnate, who claimed that the PM had personally asked him to help build consensus in the business community. However, there were concerns that he was trying to side-line longstanding channels of communication between the government and the corporate world. Others argued that it was little more than a well-meaning talking shop, amounting to little

[7] 'Fixing relations between the Tories and business', *Financial Times*, 24 November 2021.

more than occasional half-hour group conference calls organised weeks in advance.

The underlying tone of relations between the Conservative Party and business has remained largely cold or even hostile. At the 2021 party conference, there was 'a unified assault on companies who are failing to adapt to a new economic model … the scale of the vitriol towards big business left you wondering if you had been transported to a gathering of the Greens.'[8] Warnings on disruption in the supply chain were seen as 'remoaning' by businesses who wanted to retain access to cheap labour, although some back-pedalling was later necessary as the scale of the problem became apparent. The government's stance on the Northern Ireland protocol often appeared to be driven by a desire to show that Brexit was 'done', while businesses there were more prepared to find ways of working within the protocol which they saw as offering some advantages. There is no long-term structural relationship between business and the Conservative Party and such structures as have been created have not survived. From outward warmth under David Cameron, the relationship went in the freezer under Theresa May and then became one verging on hostility under Boris Johnson.

Conservative governments are prepared to face down business when politics of support considerations become more important. An example is Michael Gove's success in forcing housing companies to pay up for cladding repairs after strong initial resistance. First, he told companies to sign a pledge committing them to fix tall blocks built with potentially dangerous cladding over the last thirty years. If they did not do so, they would be signed out of the planning system and government housing funds, destroying their capacity to build. Thirty-five companies pledged to do so out of fifty-three approached, but this raised only half the funds needed, in part because some companies had gone out of business. In April 2022, he then announced a building safety levy that would be charged on each new development that sought building control approval. This would raise around £3 billion over the next decade, to be used to tackle problems in mid-sized blocks. In addition, there was a £200 million a year residential property developer tax levied on the profits of the largest developers. Gove also broke off negotiations with the cladding and insulation manufacturers, saying they had 'individually and collectively failed' to provide a proposal to deal with their part in the crisis.[9] In addition, he instructed officials to take legal action against the developers if necessary.

Further research: climate talk or climate walk?

This collection of articles demonstrates that there is much work in progress that enhances our understanding of the complex relationship between business and politics. The 1960s and 1970s was an era in which business influence was countervailed by organised labour in the form of trade unions. They have declined in the extent to which they organise the labour force, although they still have some influence on social democratic parties. The current opposition to business largely comes from environmental groups (including animal rights organisations), but they are a much more diverse category than organised labour, with a range of priorities and tactics. They are, however, still able to exert an influence on the framing of the political agenda, raising concerns about issues such as climate change. One response by business has been to emphasise ESG criteria in making decisions.

One area that requires further attention within an ESG framework is that of urgent international environmental issues, principally climate change. The opening remarks here emphasised the heterogeneity of business and the variability of its political involvement and stances. For example, some businesses are surprisingly active in reducing their carbon emissions and taking other environmentally friendly actions, but businesses with less concern for their reputations and more focus on short-term profits are always there to constrain and undermine them.

In general, the results 'of decades of [corporate social responsibility] and now ESG are

[8] R. Shrimsley, 'Boris Johnson can battle business but he can't ignore economics', *Financial Times*, 6 October 2021.

[9] J. Pickard and I. Smith, 'Gove sets out new £3bn tax to fund UK cladding repairs', *Financial Times*,13 April 2022.

disappointing, highlighting long-standing problems with transparency-based self-regulation in the absence of explicit sanctions for non-compliance.'[10] Empirical work by Coen, Herman and Pegram shows that climate talk does not translate into substantive climate walk. Their models 'show that while some climate commitments are genuine, many constitute little more than "greenwashing"—producing symbolic rather than substantive action.'[11] It is in this area that one sees an interesting tension between the politics of ideas that help to frame issues and the politics of power that shape and constrain solutions. There is general scientific acceptance that climate change is happening and requires a very speedy and effective response. Nevertheless, the fossil fuel industry was heavily represented at COP26 and received important support from influential nation states such as China, India and Australia.

The war in Ukraine has enhanced the salience of energy security issues and the concerns of energy intensive industries in a way that challenges the prospects of a green transition in which business is a leading partner. It has also enhanced the priority of food security issues in relation to the green transition in the EU's Common Agricultural Policy. In relation to climate change at least, but also to a range of other issues such as labour market policy, business remains the elephant in the room. Can it help to bring about real change or will it water it down and obstruct it?

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[10] D. Coen, K. Herman and T. Pegram, 'Are corporate climate efforts genuine? An empirical analysis of the climate 'talk-walk' hypothesis', *Business Strategy and the Environment*, 2022; https://onlinelibrary.wiley.com/doi/full/10.1002/bse.3063 (accessed 28 April 2022).
[11] Ibid.

