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Politics in the Interest of Capital: A Not-So-Organized Combat

There is much to commend in Hacker and Pierson's (2011) analysis of a growing bias in US politics in favor of the wealthiest parts of society. However, the image of "politics as organized combat" draws our attention into the wrong direction. There is increasing evidence that organized groups are less pivotal in US politics than is generally assumed. Moreover, the insights on group politics do not travel well to Europe, where we find fundamentally different forms of political organization. Explaining rising inequalities in Europe requires understanding the structural features of finance capitalism rather than just political interactions.

Politics as Organized Combat?

Hacker and Pierson's work rightly reminds us that we need to study what government actually produces. They document that both Democrats and Republicans have contributed to rising inequality in the US and explain this phenomenon with the rise of interest groups pressuring the government to regulate in the favor of business interests and finance, either with new laws, or by failing to update others that would have had redistributive consequences – thus creating "policy drift".

The decline of organized groups

To be sure, financial resources are essential for gaining access to US politics. However, coordination, which is the central feature of organized groups, has been in sharp decline in US politics. Mizruchi (2013) provides a detailed historical account the fracturing of the American corporate elite. After a height of coordination among corporate leaders in the 1960s and 1970s, central business associations began to lose influence and had increasing difficulties to develop common positions. The so-called "inner circle" dissolved in the two following decades. Smith's (2000) extensive policy-focused study of the lobbying efforts of U.S. Chamber of Commerce confirms that business actually loses its battles unless it has public opinion on its side. This is not just true for large organizations, but also smaller ones. Grossman (2012) finds advocacy groups are more often associated with policy change than business groups. Baumgartner et al. (2009) find that the relationship between money and policy change is close to zero. Certainly, business groups outnumber mass-based groups, but rich interest groups do not just ally with the rich and poor groups with the poor: they mix. The recurrence of such alliances thus tempers the effect of money on interest group success. Gilens (2012) recent study indicates that the category that appears to have the largest impact on policy outcomes are not groups, but affluent citizens. Moreover, the association between affluent citizen preferences and business group preferences is surprisingly low. In line with popular sentiment, a combination of preferences from economic elites and business groups increases the likelihood of policy change substantially. In sum, we are thus facing a puzzle. Affluence and influence work in tandem in American politics, but this is *not* due to the superiority of organized groups.

Moving to Europe

Comparing US politics with European trends provides additional reasons to doubt that interest group activities can explain policy shifts in favor of capital interests. First of all, trade unions are more firmly established in most European countries. Second, the role of private funding in

politics is reduced by substantial public funds available to political parties, introduced in the 1960s and 1970s (Koß 2010). Still, despite these apparent differences in political structures, European parties have *also* converged on economic and monetary policies, in ways largely comparable to the United States. In a survey of five policy domains in eighteen countries, Höpner et al. (2014) have documented that a liberalization trend is visible in all advanced industrialized economies between 1985 and 2002. Höpner et al. distinguish between regulatory liberalization and redistributive liberalization. Sweden and Denmark have liberalized most radically on both dimensions. Italy, Denmark and Germany distinguish themselves through comparatively high regulatory liberalization, while France, Canada and New Zealand have advanced on only distributive liberalization. Even if liberalization is not always an indicator of rising inequality (Thelen 2014), the policies identified in case studies of individual countries tend to transform most profoundly in the 1990s and 2000s (see other contributions to this issue). What is more, like in the US, many of the policies in the center of these accounts have actually been advocated by parties on the center-left rather than the right and a considerable literature tries to come to terms with this paradox (e.g. Cioffi and Höpner 2006; Häusermann 2010). However, unlike Hacker and Pierson, these studies highlight external pressures and the re-composition of the constituency bases of traditional left parties.

Disorganization in finance

Of course, there are good reasons to think that party elites may be increasingly removed from voters, but this is not necessarily due to capture. In his recent book, Streeck (2014) refers to finance as the “second constituency” in competition with voters. Most analysts agree that finance is pivotal in explaining the politics of inequality. But again, even the financial sector’s great strength does not fit the image of “politics as organized combat”. In a recent comparative study (Woll 2014), I have argued that the financial industry has obtained some of the most advantageous bank bailout plans when they have refused to organize collectively to negotiate with their governments. Due to the massive consequences of their individual collapse for the respective economies, financial institutions can hope for government intervention even if they do not coordinate to facilitate a response. Coordination is indeed difficult to achieve for the financial industry, which is composed of a multitude of sectors, institutions of very different size and a myriad of stakeholders with often opposed interests. The likeliness that different parts of the financial industry will lobby on opposite side of most policy issues is relatively high. We can thus conclude that finance is not really different in terms of interest group organization from other business interests. How then has finance established itself as a central element in the politics of advanced industrial societies, without actively coordinated organized combat?

Structural power

What makes finance special is not how the industry organizes for combat, it is their structural power. The structural features of financial capitalism weight heavily on politics and are a more likely candidate for explaining rising inequalities across advanced industrialized countries. Power has been defined as “the production, in and through social relations, of effects on actors that shape their capacity to control their fate,” (Barnett and Duvall 2005, 45). Structural power operates through existing institutional arrangements that allow certain actors to control the range of choices available to others without apparently exerting pressure.

Hacker and Pierson have written about structural power, but their effort to explain political choices lead them to an agency-focused perspective that ends up downplaying several important aspects of structural power in their recent book. In particular, they do not acknowledge sufficiently how structural power creates a cumulative advantage across policy domains and by redistributing political authority in ones favor. The first *horizontal* dimension of cumulative bias is linked to the insights of the complementary literature in comparative capitalisms. Reforming a policy domain upon with other issues depend in order to function properly creates spill-over effects that may or may not be conscious decisions. The second *vertical* dimension of cumulative bias happens through critical junctures, which redistribute political authority, for example through the creation of independent agencies or supranational integration. Once new arrangements are in place, they operate as a guideline for political decisions and can create rather striking system dynamics, such as the bias towards the reductions of boundaries upheld through court rulings (Scharpf 2012). A one time victory over European integration thus creates a systematic bias in favor of mobile factors that is likely to affect a great number of policy domains, even if no interest group ever exerts any pressure on politicians to address these directly.

Conclusion

Hacker and Pierson have rightly reminded us to focus on policy-production, but the search for specific agents that are universally responsible for the overall policy orientation is misleading. A more structural understanding of the power of finance helps to see that agency is in fact fragmented and shared between political, economic and societal actors. Rather than trying to understand their individual decisions at any one point in time, we should focus on the structural features and the particular institutional arrangements that shape the individual players' capacity for action. This implies that the politics of inequality are not just a domestic phenomenon, they also have important international dimensions. Just as state cooperation has allowed markets to expand through trade and investment agreements or coordination on monetary regimes, countries can coordinate to regulate financial capitalism by fixing limitations on business operations, bonus regimes or corporate governance guidelines. The challenge is sizeable, but some of these policy initiative appear to be more promising for reducing inequality in the US and Europe that changed electoral participation or support for trade unionism.

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New Books

The Future of the Euro, Oxford University Press (2015)

Editors: Matthias Matthijs & Mark Blyth.

Contributors: Kathleen McNamara, Erik Jones, Nicolas Jabko, Vivien Schmidt, Abraham Newman, Mark Vail, Jonathan Hopkin, Wade Jacoby, Craig Parsons, and Eric Helleiner.



The Future of the Euro is an attempt by political economists to scrutinize the fundamental causes of the euro crisis, determine how it could be fixed, and consider what likely futures lie ahead. To do so the book makes three interrelated arguments that stress the primacy of political over economic factors. First, the “euro problem” is analyzed as the result of the currency’s fundamental lack of institutional embeddedness, insofar as its original design omitted three ‘forgotten unions’ alongside monetary union: a financial and banking union, mutually supporting institutions of economic government, and a political union holding similar legitimacy to the nation-state.

Second, the “euro experience” shows how the unfinished design of the euro led to economic divergence – quietly altering the existing distribution of economic and political power within Europe prior to the crisis – that had determinate consequences for how the EU responded to the crisis. The book highlights how the euro’s four most important members – Germany, France, Italy and Spain – each changed because of their adoption of the euro, why the crisis affected them so differently, and how each has struggled to live with the commitments the euro