

# What determines the structural power of business? City mayors and their concern for economic growth

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## **Abstract**

For elected policymakers, the market can be a prison. They have to consider that any policy against business interests, like increasing taxes, may impede investment, employment and may ultimately diminish their chances of re-election. This mechanism is the structural power of business (opposed to the instrumental power of business like lobbying), and it operates mostly automatically in the head of policymakers. But of course, business interests do not always prevail in politics. Thus, it is an ongoing debate about which factors explain variations in business' policy victories and the degree of business' structural power. In this paper, we study the determinants of structural business power at the local level. Mayors and municipalities are particularly exposed to Lindblom's prison mechanism because firms can easily move from one city to another when they dislike local policy decisions. Using surveys of city mayors in 27 European countries, we analyze which factors explain mayors' consideration of business and their perceived constraints by business' structural power.

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This is an early draft with preliminary results (please do not cite or circulate) – Comments on any part are highly welcome!

# 1 Introduction

For policymakers capitalist democracies, as Charles Lindblom (1982) put it, the market can be a prison. Elected leaders can pursue their agenda, but they have to consider that any policy against business interests, like increasing taxes, may impede investment, employment and may ultimately diminish their chances of re-election. This mechanism is the structural power of business (opposed to the instrumental power of business like lobbying), and it operates mostly automatically in the head of policymakers Swank (1992); Winters (1996). But of course, business interests do not always prevail in politics (Baumgartner et al., 2009). Structural business power thus cannot work absolutely and universally.

Lindblom's critics have pointed out early on that there are factors that mediate the structural power of business, in particular ideology and the credibility of the divestment threat (Marsh, 1983, p. 5f). Structural business power is stronger when pro-market-and-small-government parties are in power (Swank, 1992) and, among capital, international banks are understood to be particularly powerful because their investment is especially flexible and because they fund the state (Marsh, 1983; Gill and Law, 1989). Recently, researchers have taken up this debate, trying to assess which factors determine the structural power of business. This effort has focused either on the type of predominant economic ideas or on characteristics of business. The first strand of the literature centers on economic ideas which determine the extent to which capital is privileged (Bell, 2012; Bell and Hindmoor, 2014, 2015). The second strand emphasizes various characteristics of firms, such as business' outside options (Hacker and Pierson, 2002; Culpepper and Reinke, 2014), their capacity to increase structural via instrumental power (Fairfield, 2015), or their centrality in the business network (Winecoff, 2015).

The research has thus neglected the characteristics of policymakers. Policymakers, however, are crucial, given that the structural power of business depends on policymakers' expectations. The core of Lindblom's business power is that policymakers *refrain* from implementing a certain policy when they fear it might harm firms' investment incentives. It is thus imperative to understand the factors that determine policymakers' priorities and evaluations.

The reason for this relative neglect in the literature is that policymakers' evaluations are not easily available to researchers. National leaders, in

particular, have little time to devote to researchers' inquiries. Additionally, the number of national leaders is small which makes it hard to account for the specific context: Differences between May and Merkel are overdetermined.

In this paper, we circumvent this problem by shifting the focus from the national to the local level. We analyze the evaluations of elected local policymakers, that is, the priorities of city mayors. In many countries, city mayors have wide-ranging competences regarding businesses and citizens' concerns. And they are exposed to Lindblom's prison mechanism because firms can easily move from one city to another when they dislike local policy decisions (Savitch and Kantor 2002).

Using surveys of city mayors in 27 countries, we analyze which factors explain mayors' consideration of business and their perceived constraints by business' structural power. Among others, we consider party membership, ideology, budgetary constraints, the level of municipal political conflict, and the national context in terms of municipal autonomy.

One important contribution of this paper is to directly measure structural business power. While there is a recent effort to measure structural business power and not to deduce its extent from the outcome (i.e. stating that business power was high because business got what it wanted), researchers have tried to establish only the variation in structural power among firms (Culpepper and Reinke, 2014; Fairfield, 2015; Winecoff, 2015). More pertinent to Lindblom's conception, however, is to assess the differences between policymakers. That is, how much structural power does one policymaker grant compared to another. We develop a direct measure of structural business power in policymakers: the extent to which they privilege economic growth over other policy goals. And the ability to measuring Lindblom's structural power allows assessing its determinants.

We are interested to find out (i) to which extent ideology and the state of the economy influence structural business power, (ii) whether and (if so) how instrumental power of business increases its structural power, (iii) and whether "quiet politics" strengthens business power.

## **2 Structural business power**

The clear reference point for the structural power of business in comparative political economy is Charles Lindblom's analysis of the relationship between politics and markets (Lindblom, 1977, 1982). It concerns not the

power to shape structure, but the power business enjoys by the structural dependence of the state on markets.

This dependence results from the fact that, in capitalist democracies, investment decisions are not taken by state officials, but by business executives. Thus, the fostering of economic opportunities and the increase people's standard of living lies first in the hands of these un-elected corporate officials. And this control over investment decisions constrains policymakers' room for action. They cannot demand that business invest. They have to incentivize them with lowering taxes or loosening regulation. This inability of policymakers to control investment also means that are vulnerable to businesses stopping investment, which limits their policy options.

As Lindblom (1977, p. 178) puts it: "Government exercises broad authority over business activities. But the exercise of that authority is curbed and shaped by the concern of government officials for its possible adverse effects of business, since adverse effects can cause unemployment and other consequences that government officials are unwilling to accept." The fear of poor economic performance deters policymakers from implementing policies that go against business interests.

Business executives may actively voice their demands to government, but often, they do not have to: The adjustment to business' preferences "operates through unspoken deference of administrations, legislatures, and courts to the needs of business. And it relies on a multitude of common tacit understandings shared by [business executives and policymakers] with respect to the conditions under which enterprises can or cannot profitably operate." (Lindblom, 1977, p. 179). This deference of policymakers thus privileges business over other societal interests.

Business structural power, however, is not absolute. There are plenty of instances when business does not "win." Governments do – sometimes – increase corporate taxes or tighten regulation. These lost battles do not mean, however, that business enjoys no structural power. Rather, they show that structural power can vary. This paper investigates further the causes for variations in the structural power of business. With the unique set up of considering city mayors as policymakers, we are able to test a number of claims that have been raised in earlier theoretical contributions (Marsh, 1983; Ward, 1987; Vogel, 1987).

Our main focus, however, lies in the relationship between the structural and the instrumental power of business. We argue that the main channel of interaction is the election process. Business can increase their struc-

tural power by relying on their instrumental power. But this increased influence occurs not so much through lobbying and consultations. Instead, business achieves more structural power by getting business-friendly leaders elected. Policymakers who were endorsed by the local business community are likely to prioritize growth, and policymakers who were endorsed by non-business groups (like religions groups or unions) prioritize other goals.

Key determinants in the literature are the ideology (or partisan affiliation), the state of the economy, and business' outside options. These can readily be applied to city mayors. First, more conservative mayors (and mayors of conservative parties) privilege investment and growth over other policy goals. Second, mayors in cities with financial difficulties are likely to place an increased emphasis on economic growth. Finally, the extent of outside options in the context of cities involve cities' policy autonomy and their level of competition. When mayors have little influence on policy, because it is made on higher governmental levels, they need to pay less attention to business' demands. And the level of competition depends on the type of cities. When businesses can easily go elsewhere, mayors are more concerned about investment and growth. Put differently, the more policymakers are in competition for businesses, the more they prioritize business interests. Competition is intense for small cities. Large cities, in contrast, offer a substantial pool of resources and a significant local market which makes them more attractive to businesses. Relocation occurs less often and business' exit threats are less credible. Cities that do not depend on attracting business, because they are commuter towns and benefit from urban centers, allow their officials to prioritize other goals. They also eschew the competition for businesses, and their mayors grant less structural power to business.

### **3 Research Design**

Our data is taken from the Polleader II survey, the second round of a Europe-wide survey of city mayors conducted between 2014 and 2016. The survey was conducted in 27 European countries [29 but excluding Iceland and Israel with low non-response rates], and it was sent to all mayors of municipalities with 10.000 inhabitants or more. The average return rate was 39 percent and the questionnaire asked information regarding the mayor (e.g. their role perception, policy priorities, partisan affiliation), the city (e.g. financial situation), and the political environment of the city (e.g. interest

group activities). Our main variables are taken from this survey and are thus self-reported.

We complement the data from the survey with other data on the city, national and regional level (as described below). As method of analysis, we use hierarchical (multi-level) models, in which we treat the city as the unit of analysis but account for national characteristics.

### 3.1 Dependent variable

Our key concept is structural business power, operationalized as the relative priority a mayor gives to economic growth. The rationale is that the priority to economic growth indicates how much a mayor privileges business interests over other concerns. Because economic growth depends on the investment decisions in the market, and firms invest only when they expect to profit, the priority of economic growth implies the accommodation of business interests. The higher the relative priority of growth, the higher is the structural power of business.

We construct the measure as the relative priority mayors give to the goal “**to stimulate economic growth and employment**”<sup>1</sup> compared to three other goals, namely (1) “**to develop social policies** to secure adequate housing, health care, education, public transport facilities and take care of the needs of vulnerable groups (the elderly, the young, the unemployed etc.)”; (2) “**to protect the natural environment** and secure the responsible use of natural resources”; and (3) “**to improve the integration of ethnic**, religious or cultural minorities and emphasize diversity and tolerance in the local community.” Specifically, we calculate relative priority as the mayors’ standardized evaluations of *economic growth* on a 5-point scale, by subtracting the mean of the evaluations of all the four goals and dividing it by their standard deviation. Thus, a mayor who puts economic growth at average importance (equal to the mean) is recorded as zero, and a mayor who prioritizes it over the other goals receives a positive score (up to about 1.5).

We choose to set the growth objective relative to these three alternative goals because they are costly to business. They require the city to allocate resources towards them, either through increased tax revenues or cutting expenditure elsewhere (such as on infrastructure), and they do not benefit business. Social policies, environmental protection and the integration of minorities demand resources and are essentially irrelevant to business

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<sup>1</sup> The emphasis here and in the following items is reported as in the original survey questionnaire.

interests. We leave out other goals that either benefit business (such as improving the local infrastructure) or require few resources (such as preserving the local identity).

### **3.2 Independent variables and controls**

The main independent variables concern potential determinants of structural business power. Partisanship and ideology are commonly assumed to affect the structural power of business (Marsh, 1983; Fairfield, 2015). Another determinant is the state of the economy. In economically dire times, policymakers place more value on stimulating growth.

We include control variables at three levels. First, we control for individual characteristics of the mayor, such as education, gender, and age. Second, we account for the city-level factors, such as the type of city. Specifically, we distinguish between urban centers, the commuting zone, and cities outside larger urban agglomerations (typology of functional urban areas; Eurostat 2011; data for Norway and Switzerland upon request).

Third, we also add national and regional variables indicating institutional differences. At the national level, we include whether mayors are directly or indirectly elected, as reported by the Polleader II research team [the sole variation within country is reported with the English sub-country code, but covering only 1 directly elected mayor]. And the degree of municipalities' fiscal autonomy is taken from the corresponding indicator in the Local Autonomy Index (LAI; Ladner, Keuffer, and Baldersheim 2015). At the regional level, we use an expanded typology of local government, going back to the distinction between more centralist Napoleonic countries, more functionally oriented local governments in Anglo-Saxon countries, and Middle- and Northern European countries with a stronger emphasis on local democracy (Hesse and Sharpe, 1991). This typology is further differentiated by distinguishing between countries with a federalist tradition of a Germanic type and the Nordic welfare states with strong but nationalized local governments (Loughlin and Peters, 1997; Sellers and Lidström, 2007), and it is geographically expanded to cover Central Eastern and Southern Eastern countries, whose success in democratizing their inherited centralist states and in rebuilding their economies varies considerably (cp. Kuhlmann and Wollmann, 2014).

## 4 Results

Our results are preliminary. We explore the effect of commonly mentioned determinants of structural business power and, also, a variety of instrumental-power measures.

As shown in Table 1, we find support for the commonly hypothesized determinants. Ideology strongly affects the extent of business power. Mayors with higher scores on the left-right scale place more importance on economic growth. Similarly, a poor state of the economy (measured in self-reported financial difficulties of the city) increase this growth emphasis. Finally, more competition privileges business. The higher competition which rural cities face and high fiscal autonomy are associated with a higher prioritization of economic growth.

We also find support for our argument. The electoral endorsement of the local business community increases the mayor's emphasis of growth, while the endorsement of unions or religious groups reduces it (Model 1).

In contrast, business consultations or campaigns seem to have no effect on a mayors choice of priorities (see Model 2 in Table 1). Also, the (self-reported) time mayors spend on field visits or meetings with groups and citizens is not related with mayors' prioritization of growth (Model 1 in Table 2). Conversely, a lot of time spend on public debates has no negative effect.

Finally, the distinction between quiet and noisy politics has little bearing on structural power: We find no effect for cities' level of political conflict (Model 2 in Table 2). Stronger political conflict seems not to curb business' structural power.

## 5 Conclusion

The recent global financial crisis has reinvigorated scholarly interests in the structural power of business. We contribute to this effort by measuring and analyzing the structural power of business – the extent to which policymakers give priority to foster economic growth.

Our data has shown that – as previously hypothesized – a poor state of the economy, the policymakers' right-wing ideology and a high level of competition for investment increase structural business power: They bring policymakers to prioritize stimulating investment and economic growth over other policy goals. These determinants thus make it more difficult for envi-



Table 1: Interest-group electoral support and strategies

	(1)		(2)	
DV: Priority economic growth				
Election support from...				
- Business (I)	0.0982**	(0.0386)		
- Unions   Rel.Groups (I)	-0.0731*	(0.0435)		
- Party (I)	-0.0295	(0.0384)		
Interest group strategies				
- Business: consultations			0.0484	(0.0388)
- Business: campaigns			-0.0193	(0.0705)
- Religious: consultations			0.0407	(0.0359)
- Religious: campaigns			0.0610	(0.0514)
Ideology	0.0500***	(0.00846)	0.0530***	(0.00841)
Right party (I)	0.00544	(0.0415)	-0.00101	(0.0411)
Financial problems (I)	0.100***	(0.0387)	0.0990**	(0.0388)
University (I)	0.0205	(0.0388)	0.0218	(0.0388)
Female (I)	-0.0468	(0.0451)	-0.0416	(0.0452)
Age	-0.00470***	(0.00177)	-0.00479***	(0.00177)
Rural city [Ref.]				
Urban center	-0.165***	(0.0471)	-0.176***	(0.0471)
Commuting zone	-0.130***	(0.0354)	-0.128***	(0.0355)
Napoleonic [Ref.]				
Federal (CEF)	-0.521***	(0.164)	-0.513***	(0.169)
Nordic (NO)	-0.228**	(0.100)	-0.206**	(0.104)
Anglo-Saxon (AS)	0.272*	(0.165)	0.237	(0.169)
Central-E. (CEE)	0.0692	(0.0916)	0.0633	(0.0953)
South-E. (SSE)	0.0696	(0.103)	0.0666	(0.106)
Fiscal autonomy (0-4)	0.153**	(0.0692)	0.147**	(0.0711)
Observations	2137		2137	

Standard errors in parentheses

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Table 2: Mayoral time and noisy politics

	(1)	(2)		
DV: Priority economic growth				
Time spent with...				
- meet groups/citizen	0.0784	(0.266)		
- staff meetings	-0.149	(0.255)		
- field visits	0.0863	(0.301)		
- public debates	0.0568	(0.418)		
- ceremonial functions	0.822**	(0.345)		
- preparation	0.131	(0.245)		
- meet o/ mayors	-0.114	(0.508)		
Political conflict (0-10)			0.00114	(0.00686)
Ideology	0.0467***	(0.00875)	0.0520***	(0.00872)
Right party (I)	-0.00202	(0.0459)	-0.00908	(0.0438)
Financial problems (I)	0.0901**	(0.0431)	0.106***	(0.0394)
University (I)	0.00877	(0.0430)	0.00103	(0.0396)
Female (I)	-0.00906	(0.0477)	-0.0265	(0.0478)
Age	-0.00575***	(0.00188)	-0.00535***	(0.00182)
Rural city [Ref.]				
Urban center	-0.161***	(0.0509)	-0.176***	(0.0477)
Commuting zone	-0.139***	(0.0384)	-0.114***	(0.0372)
Napoleonic [Ref.]				
Federal (CEF)	-0.409**	(0.159)	-0.475***	(0.178)
Nordic (NO)	-0.196**	(0.0958)	-0.214*	(0.124)
Anglo-Saxon (AS)	0.178	(0.173)	0.296*	(0.171)
Central-E. (CEE)	0.0554	(0.0878)	0.0569	(0.0975)
South-E. (SSE)	0.0756	(0.0983)	0.0561	(0.108)
Fiscal autonomy (0-4)	0.113*	(0.0664)	0.125	(0.0763)
Observations	1729		1974	

Standard errors in parentheses

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

ronmental or social concerns to find their way into the policy agenda.

For the interaction between business' instrumental power, we have found that lobbying or campaigning do not seem successful. The best chances to increase their structural power are to get a business-friendly candidate elected.

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