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▶ **To cite this version:**

Pierre Francois. The state and the structure of the business community: Mark Mizruchi interviewed by Pierre François. Economic Sociology (European Electronic Newsletter), 2014, 15 (2), pp.49 - 54. hal-03176344

HAL Id: hal-03176344
https://sciencespo.hal.science/hal-03176344

Submitted on 22 Mar 2021

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The State and the Structure of the Business Community

Mark Mizruchi interviewed by Pierre François

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1 You are best-known as "Mr. Interlock." I would like to know how you began to work on interlocks and with network methods.

I was in graduate school at Stony Brook in the 1970s, and I was interested in questions around Marxist theory, but I had started college as a math major. I had always liked numbers, but by the time I got to graduate school I had developed this aversion to quantitative sociology, and I didn't want anything to do with it. In my second year of graduate school I went to a practice job talk by Beth Mintz, who was working at the time with Michael Schwartz. She presented a talk on corporate ownership and control. In order to empirically address that topic, she began writing mathematical models on the board, and drawing circles and lines, and she was talking about debates in Marxist theory. It had never occurred to me that you could deal with interesting theoretical questions and use numbers and mathematical models. I was really excited by this. So after her talk I went to Michael Schwartz, who had run this big project, and I asked him if he was interested in having somebody else work on the project, and he got very excited to have a new student who was interested in it. I thought that this question of ownership and control was interesting but I didn't know exactly why it was important, I knew it was something a lot of people had argued about. But it was never clear for me why these arguments were so intense.

I started to get interested in the question theoretically, and then I got interested in interlocks. Companies have boards of directors, and if you look at the board of one company you see people who also sit on the boards of other companies, so they create ties between the companies. Michael had worked with Harrison White in the 1960s, and he was involved in Harrison's early work on social networks. He was there at the same time Mark Granovetter was there. Mark had developed this idea of weak ties versus strong ties, and Michael used this distinction in his work on interlocks. My interest grew out these questions, rooted in my old interest in Marxist theory, and at the same time from my interest in these mathematical models and social networks.

2 Your first book, *The American Corporate Network*, was on the evolution of the network of the biggest US firms. How did you get from this first book to the 1992 book, *The Structure of Corporate Political Action*?

There was actually a good reason for me to switch my approach. When we first started doing these network analyses of interlocks, there was a lot of excitement: You can draw these really beautiful pictures, and you can show that all these firms are connected to one another. It initially seemed sufficient on its own just to show that these structures existed. But after a few years, people started asking a question: So what? Does it make any difference that all these companies are connected? Are there really any behavioral consequences of this? For the first couple of years, I just tried to argue my way out of the problem: "Well, you can't observe this kind of thing, we know power when we see it!" I even published an article in the *Academy of Management Review*, called "Who Controls Whom?" I was arguing that boards of directors, even if they rarely did anything, were the primary center of control inside the firm, because they had the ability to hire and fire the CEO. I made that argument because it was a justification for looking at interlocks as centers of power. If directors had power inside the firm, then it made sense to talk about their power in the economy as a whole.

This response worked for a while, but I became increasingly concerned that these critics had a point. I really did need to show that there were consequences of these ties. The question was how to do it. What I needed was a political outcome, because we were arguing that these interlocks led to political unity or cohesiveness among the large corporations. How were we going to show that empirically? In 1982, I was at a sociology meeting in San Francisco, and I was talking to one my fellow interlock researchers, Tom Koenig. Tom, in his dissertation, had looked at political contributions made by corporations. There had been a recent law in the United States that allowed corporations to form separate entities called political action committees. They were legally separate but they could be funded by the firms, and they were basically run by the firms. As part of the deal, they were required to report all of their contributions, and the government made these contributions public. You could purchase, in those days they were tapes, where you could find all of the contributions made by the political action committees, including labor unions and other kinds of groups, as well as corporations. I started thinking: there's got to be a way that I can use these political contributions as an outcome of interlock ties.

The problem was that interlocks were by definition relational. They involve relations between firms. If you are talking about class cohesion or business unity, you're talking about a relational process. But the contributions are made by individual firms, so if you want to talk about contribution patterns, your unit of analysis is the individual company. I was trying to figure out how I could develop a relational analysis using these campaign contributions. One day it hit me: I could look at dyads, pairs of companies. If you look at a pair of companies, you can ask the question: if these companies share an interlock, are they more likely to contribute to the same candidates?

The other thing is that I wasn't just interested in network ties as social connections. I wanted to argue that there was a more structural basis for firms to be cohesive with one another, that it wasn't based just on personal friendship. The idea I came up with was that the firms' economic interdependence made them more cohesive. It turned out that there was a body of scholarship on this in sociology, called power-dependence theory, the classic article was by Richard Emerson, and this even goes back to Durkheim, because in *The Division of labor* Durkheim argued that interdependence was the basis of organic solidarity. Emerson made a similar argument, that when people are dependent on one another, they gain a stake in maintaining the relationship. If companies are interdependent, then they would probably have a stake in maintaining a cohesive relationship as well. The problem was, there was no publicly available data on direct transactions between companies. But around that time I had come across Ron Burt's early work. He dealt with the problem by looking at relations among industries, because those data are available in the US. Ron had used these input-output tables to predict where interlocks were likely to occur. I wanted to use these tables to predict where firms would exhibit similar political behavior.

3 After the 1992 book, you seemed to get into another main interest: the problem of the relationship between the state and the economy wasn't so central to you anymore. You decided to turn to other questions, such as the role of banks in the intercorporate network. Why did you move in this direction?

By the time my 1992 book came out, sociologists, at least in the US, had lost interest in questions about class and power, about the relations between business and the state. What was left of the area was now dominated by state-centered theories. There was no real interest in looking at questions like the effect of business on the political process. And this was related to a lack of interest in class, at least in the US. There was much more of a focus on race and gender inequality.

Meanwhile, although my own work was becoming much more rigorous, my focus was getting more and more narrow. It was almost as if I was saying: well, I'll do these very well crafted and very rigorous articles, I'll get tenure, and then I'll go back to working on the big questions. Except that one day I realized that this was the only thing I knew how to do anymore, the kind of articles that end up in the *American sociological review* or *Administrative science quarterly*. It's a good way to advance your career, but it moves you away from the big questions. And there wasn't as much interest in those questions anyway.

What interest there was in these questions was coming from people in business schools, who were discovering social network analysis. They were saying: "You can look at these network ties and they will explain firm behavior!" Jerry Davis, who is now my colleague, was a graduate student at Stanford, and he was writing his paper on how interlock ties led to the diffusion of takeover defense plans

among American corporations. Another graduate student, from Carnegie Mellon, Pam Haunschild, wrote a paper showing that companies whose CEOs sat on the boards of companies that had recently made acquisitions were more likely to make acquisitions themselves. Because of this work, interlocks came to be a big deal among people in business schools. Sociologists weren't interested anymore, but the business school people were. I had shown that connections among firms affected the firms' political behavior, so I wondered if they affected their economic behavior as well.

In the mid-1980s I had begun a project with Linda Stearns, whom I had known in graduate school. My dissertation focused on changes in network structures over time. Linda had worked on capital dependence among firms over time, and it occurred to me that we should put the two together. We had started by looking at the relations between financial dependence and interlocks. After my book came out, we wondered if maybe interlocks could predict firm financial behavior: if your company and my company have an interlock, maybe we influence each other about how we structure our financial portfolio, how much debt we use and how much equity. If we could show something like that, that even these economic and financial variables could be predicted by social ties, this would really show the value of economic sociology. We started to do that and we had some success.

In the 1990s, the chief executive of one the largest US banks was someone who had a big interest in social science, and he set up a research foundation, funded by the bank. The foundation put out a request for proposals, with the idea that you could get access to the bank and study it. Linda and I decided that this was too good an opportunity to pass up, and we were able to get one of these grants. We were interested in the question of risk, how it could be mitigated by social network ties. When we looked at how the bank operated, we started to talk with corporate bankers, the people who actually made deals with corporations, and we discovered that they had to use social networks inside the organization in order to get their deals closed. We ended up doing a study in which we interviewed individual bankers. We got information about the structure of their networks, and we were able to show that the likelihood of them successfully closing a deal was a function of how sparse their networks were. You need to pull people together to approve your deal, and the more diverse your network is, the greater the probability you close the deal. This was consistent with Ron Burt's argument about structural holes, that a sparse network gives you more resources and information. We published a couple of articles from this study and they received a certain amount of attention, but it was a long way from the early questions about class and power from which I started. But this is about the time I started thinking about the questions that frame my new book.

4 It seems that in your most recent book you came back to these big questions you were interested in at the beginning of your career… Could you tell us a little bit more about the way you came back to these questions?

During this period – this is the 1990s and maybe the early 2000s – I was still on this path of producing these very well-crafted, rigorous studies, with a very clear and possibly narrow focus. They weren't narrow by conventional American sociological standards, they were pretty mainstream, but they were narrow compared to the questions with which I originally started. I had applied for another grant from the National Science Foundation. It was a tight, solid proposal. One of the reviewers wrote: "this is a good proposal, we should fund it, there is nothing wrong with it". Then the reviewer started criticizing me, saying: "this principal investigator is a full professor, and this is the kind of project an assistant professor should do," that when you're a full professor you should be thinking about broader topics, and doing bigger things, and taking risks. And that hurt, because I knew the reviewer was right. During these years, I had this nagging feeling in the back of my mind: am I really asking the big questions? I even wrote something in the conclusion of my 1992 book where I said that some critics might accuse me of ducking the big questions in this book, but I plead innocent, because I really was dealing with them, except that I'm not sure that I was. I had been thinking for a few years that I needed to do something that's really exciting.

For a long time, I had this idea that the American business community had developed a sort of false consciousness, in the Marxist sense that they did not operate in their own interest. If you take for example healthcare policy, unlike virtually the entire rest of the developed world, there was no national healthcare program in the US, except for the elderly. Private businesses had basically taken on the responsibility of providing healthcare for their employees. In the 1950s, when healthcare did not cost very much, it was not so much of a problem. But by the 1990s, healthcare

costs were skyrocketing, and it was putting a huge burden on private companies. They were aware of this, and they started saying that maybe we need something like a national policy. When Bill Clinton got elected, one of the first things he did was to propose a national healthcare plan. Originally, the American companies were supportive of this. But there was too much division among them. The far right had by then basically captured the Republican Party. They were strongly against anything Bill Clinton wanted to do. Big business originally supported Clinton's healthcare plan, but then they were frightened out of it by the Republicans in Congress.

The other thing that struck me was when I thought back to the way the corporate elite had been in the 1950s and the 1960s. I was a little too young for the anti-war movement, if I had been two or three years older I might have been sent to Vietnam, but I was still very critical of the war. In college and graduate school we thought that these business guys were the bad guys, that they were the ones who got us into Vietnam, that they were behind all of the racism and imperialism and all the other terrible things that the United States did. When we were studying corporate interlocks in those days, we were studying those people we thought were the bad guys. And yet when you look back at that time, by comparison to the present these people were pretty liberal. As one of the reviewer of my book put it, Chrystia Freeland, the modal position of the big business people from that time would now put them on the left wing of the Democratic Party. I had a feeling that part of the problem that we have in American politics, where it seems impossible to accomplish anything, is that big business can't even act in its own interest, to save the system from which they are benefiting.

This, of course, is a pretty broad claim, and I had no idea how I was going to do this work: where are my regression equations, what is my dependent variable, where is the network, how am I going to measure this network? Instead, I wrote the book as a historical narrative. I wouldn't call it pure history. I did use some archival data, but I did not spend three years in the archives. I would call it analytical history, where I have a framework and I try to make sense of historical events. I don't think there is a lot of controversy about the facts that I report. But I have my own interpretation.

5 Could you tell us a little bit more about this argument?

The argument is that in the period after WWII, the elite members of the American business community had a more far-sighted perspective. The term they used was enlightened self-interest. There was an organization called the Committee for Economic Development – they still exist but they are just a shadow of their former self – they were very prominent at the time. They included CEOs of important companies as well as academics. Originally the group was formed in 1942 to deal with questions about what was going to happen to the economy after WWII. It turned out that they continued during the 50s and beyond, developing positions on various issues. They were behind the Marshall Plan, for example, the Employment Act of 1946, a bunch of legislation. By contemporary standards they were pretty liberal. They represented only a small part of the American business community, but they were the segment people listened to because they were the biggest corporations. They made their peace with Keynesian economics, they decided that the public needed to have enough purchasing power to sustain the economy, so they needed to have high wages and low unemployment. These people didn't love labor unions, no business people do, but they accepted them. They worked to find some kind of accommodation, which became known as the postwar capital-labor accord. Some recent labor historians are now criticizing this idea, they say that there never was an accord, but I think they miss the point. Yes, business was always fighting labor, tooth and nail, but during that period there was what Ralf Dahrendorf called institutionalized class conflict. They were fighting, but they were not really trying to destroy the unions in the way they would do later on. They were fighting in a regularized, institutionalized framework.

The argument I make is that the large companies were constrained to adopt this moderate approach by three forces. One is that the state was highly legitimate at the time. The American public thought that the state was a force for good. This was a result of Franklin Roosevelt's New Deal. Because of this, the government had a certain degree of power, and business could not, like they do today, blame the government for everything, they had to accept an active government. The second force was organized labor, which was relatively strong at the time, not as strong as the European unions, but certainly much stronger than they are now. At a certain point in the 50s, 35% of the US labor force was unionized, which is a pretty high

percentage. And then the third factor, I argue, was the financial community. It is not that the banks controlled corporations, but the banks served as a consensus builder. If you look at the boards of directors of the big banks, they included what an old graduate school pal of mine, Jim Bearden, called the corporate all-stars. You could see the CEOs of a lot of major companies sitting on the boards of the big banks. Through these connections they forged a certain normative consensus. Sitting on a board and interacting with people from other industries created a broader view of the world, which tended to create a more moderate view as well, because you see the world from different perspectives. This was the third force that helped the business community to be more cohesive.

This system worked pretty well through the 50s and 60s. There was a lot of turmoil of course in the US, it is not like it was a completely stable and happy period, but the economy was booming, and the average real standard of living for an American family doubled between 1946 and 1970. The political system also worked in a way that it doesn't work now: members of different political parties made deals, they accomplished things, the party that was out of power cooperated with the ruling party. The system worked pretty well.

And then in the 1970s it all began to fall apart. There were a series of forces. The rest of the world had recovered from WWII, Japan, much of Europe, and particularly Germany. They started flooding the American market with manufactured goods, which American consumers discovered were higher quality. American consumers started buy non-US cars. The big American companies had gotten soft because they had been in these highly concentrated markets where they did not face competition, which meant they did not have to innovate. In the 1970s they were now facing competition, and they were completely unprepared for it. So they started to experience a crisis. There was an inflationary pressure in the economy. There was the energy crisis of 1973. The major institutions also began to experience a major crisis of legitimacy. As a result of the 1960s, Americans began to dislike the government, but they began to dislike business as well. The heads of big corporations saw themselves as under siege. In order to deal with it they reorganized politically, but this time they allied themselves with the traditional conservatives. Where earlier they had not wanted anything to do with these people, now they decided to become allies. Meanwhile Keynesian economics was not working any more. We had high inflation and high unemployment simultaneously.

What happened in the 1970s is that the corporate elite, aligned with the traditional conservatives, started to push back against the forces that had constrained it. They became very aggressive in fighting against government regulation. They became very aggressive going after labor unions. By the time Ronald Reagan was elected, they had basically won. Labor was much weaker, business had stopped a series of progressive bills in Congress, and they had raised the question of whether the real problem of the American economy was insufficient supply, and insufficient productivity, rather than insufficient demand.

6 So basically they won, in quite a short period of time. And one of the paradoxes of your argument is to say that once they won, then they became weaker.

That's a paradox, but I have to be careful: it's not that they became weaker, it's that they became ineffective on issues that required collective action. They had always been relatively unified at the top. In the 1970s, business as a whole became unified. And by the 1980s, having won the war, having thrown off the basic sources of constraint, they no longer needed to be unified. It's Simmel's old external threat-internal cohesion argument: you get rid of the external threat, there is no need to be cohesive anymore. They got everything they wanted, so they started to push for their own interests. You start to see this in the 1980s, and you see it clearly in the 1986 tax reform. It is widely believed by many commentators that business lost in the 1986 tax reform. Some people said, I quote them in the book, that business could have won if they would have fought collectively, but they were too busy fighting for themselves.

There are two other things that happened in the 1980s that were very important. First, the last source of cohesion among the corporate elite, the banks, fell out of the center of the network. There was a whole series of factors that led to this. They started experiencing economic difficulty because people found alternative ways to use their money, in mutual funds and money market funds, for example. Companies found alternative ways to finance themselves. They used commercial paper instead of borrowing from banks. The banks were weakened by this, so they started to act like investment banks, moving away from lending and toward fee-for-service activities. What's interesting about this process is that you started to see these non-financial CEOs dropping off the boards of the banks. So

the banks, for the first time in the history of interlocks going back to the 1870s, started to fall out of the center of the network. The second thing was in the mid-1980s there was an unprecedented acquisition wave, with a large number of hostile takeovers. Managers saw themselves as under siege. They were in a very precarious position. In the 1950s, if you were a corporate president, you could sit back and think about the long term implications of your actions for the system. But in the 1980s, you could be out of work next month, because the company could be taken over, so you became much more focused on short term issues. You can see a drop in CEO tenure during this period.

Because of these changes that occurred in the 1980s, the elite became fragmented. When they need to act collectively, to deal with issues like healthcare, or the deficit, or taxation, recent events have shown that they are incapable of doing this, even for situations where it would be in their interest. They have completely lost control of the Republican Party. When the shutdown occurred, they said "this is crazy, you cannot do this," but the Republicans basically said to big business "screw you, we don't care." That would never have happened in the 1950s or 1960s. At an individual level, these companies are very powerful. They can get a lot of favors, they lobby people in Congress, they get good deals for themselves. But for anything that requires them to act collectively, they are completely ineffectual.