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The Business-Social Policy Nexus: Corporate Power and Corporate Inputs into Social Policy

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Abstract

It is increasingly impossible to understand and explain the shape and delivery of contemporary social policy unless we consider the role of business. Several factors have been at work here. First, many of the changes in social policy introduced since the 1970s have been in response either to business demands or more general concerns about national competitiveness and the needs of business. Second, globalisation has increased corporate power within states, leading to transformations in social and fiscal policies. Third, business has been incorporated into the management of many areas of the welfare state by governments keen to control expenditure and introduce private sector values into services. Fourth, welfare services, from hospitals to schools, have been increasingly opened up to private markets. Despite all this, the issues of business influence and involvement in social policy has been neglected in the literature. This article seeks to place corporate power and influence centre-stage by outlining and critically reflecting on the place of business within contemporary welfare states, with a particular focus on the UK. Business, it argues, is increasingly important to welfare outcomes and needs to be taken into account more fully within the social policy literature.

Introduction

It is increasingly impossible to understand and explain the shape and delivery of contemporary social policy unless we consider the role of business. To begin with, many of the changes in social policy introduced since the 1970s have been in response either to business demands or more general concerns about national competitiveness and the needs of business. Second, globalisation has increased corporate power within states, and, while this has not inevitably led to welfare retrenchment, it has certainly led to reforms in social and fiscal policies in most states. Third, business has been increasingly incorporated into the management of many areas of the welfare state by successive governments keen to control expenditure and introduce private sector values into services. Services within most welfare states have been forced to consider the needs of the private sector when deciding on the shape and delivery of services. Finally, welfare services, from hospitals to schools, have been increasingly opened up to private markets. Despite all this, the issues of business influence and involvement in social policy has been neglected in the literature. This article seeks to place corporate power and influence centre-stage by outlining and critically reflecting on the place of business within contemporary welfare states, with a particular focus on the UK. We have divided the article into three parts: the first theorises about corporate power, drawing a clear distinction between structural context and the operation of agency; the second maps out different corporate inputs into social policy; and the third part examines recent developments in the business–social policy nexus within the UK.

Corporate power and social policy

Although corporate power has been neglected more generally in the social policy literature, it has been afforded some attention by globalisation theorists. According to Susan Strange (1996: 3–4), corporations grew so powerful over the 1980s that, by the mid 1990s, they, rather than politicians, had come to assume political authority over governments. For Mishra (1999: 12) economic globalisation had, by the late 1990s, 'strengthened the hands of capital against the nation state' with the consequence, according to Roth (2002: 33), that:

> corporate power is so influential in both private and government policy that what we may once have called 'democracies' are often more accurately described now as 'corpocracies'

Such views have been criticised for their simplistic treatment of corporate power, but few critics have offered sufficiently detailed explorations and analyses of the conditions under which corporate power, in its various forms, is transformed, translated and exercised within contemporary welfare states. Our argument here, building on institutionalist theories, is that business plays an increasingly important role in shaping social policies. Although corporate power has increased, it is neither linear nor constant, but exercised differently and with different effects at various levels of policy making as well as between policy areas. To illustrate variable corporate power more clearly, we make a distinction here between structure and agency and these are mapped out in turn below.

Contextualising corporate power: structural factors

Although structural power tends to be neglected outside Marxist analysis, business is able to exert a great deal of influence over policy outcomes through economic and political structures *without* resorting to agency (action). According to theorists of structural power, various mechanisms restrict the policies of the capitalist state to those which are compatible with the basic needs (though not necessarily the wants) of business. The most important mechanism of structural power stems from capital's ability to make free investment decisions and it is this dimension of power on which economic globalisation theories focus. Since business investment is a key determinant of future production, employment and consumption levels, low levels of investment by the business sector will often translate into future economic hardship for labour and electoral failure for ruling parties (Block, 1977; Lindblom, 1977; Winters, 1996: 28–36). Moreover, since the state is structurally dependent on capital for its own revenue (Offe and Ronge, 1982), low levels of investment will impact negatively on future spending capacities. Hence, states must try to induce corporations to invest through pursuing policies which are favourable to the pursuit of profit (Przeworski and Wallerstein, 1988: 12; Lindblom, 1977) and must, within an increasingly global world, compete with other states both to retain existing investments and attract new forms. To put it more starkly, whatever the ideological persuasion of the government in power, it will have to guard against doing anything that undermines capital accumulation. In short, the decisions of policy makers are structurally framed by the imperative to induce companies to invest. Other actors also exercise agency within this environment which, in turn, impacts on their own strategies to attempt to influence. Thus, structure helps to shape the nature of business inputs into social policy, including whether or how to take action.

Structural power is not uniform, however. The extent to which it impacts on governments and states depends on how mobile capital is; the number of alternative investment opportunities open to firms; the relative strength of the economy and the degree to which governments will be prepared to compete to retain present investment or attract new investments. We return to these issues later.

Corporate agency: business inputs into social policy

We turn now to consider business agency and social policy, viewed here as direct business inputs into social policy. We distinguish between three broad inputs: political engagement, institutional participation and provision. These categories are set out in Table 1 and discussed in detail below.

Corporations and political engagement

Business is able to exert influence through its engagement in the political process on two fronts. To begin with, business and sympathetic elites dominate strategic positions within the state according to both Marxist and elite theorists (Miliband, 1969; Scott, 1991). For elite theorists, business leaders and senior politicians occupy identical elite networks which reinforce social ties and privilege and, most importantly, serve to quell opposition to business (Scott, 1991: 137). Such networks develop, not only out of shared class positions, but the dependence of political parties on private finance which, in turn, buys access to senior politicians and often favourable policy outcomes for business. Corporate funding of other bodies, such as think-tanks and research institutes, is also important to shaping political debate.

Even without generous funding, the important economic position occupied by business in capitalist societies means that the largest associations and firms and the most senior business people will usually enjoy good access to senior civil servants and members of the cabinet, including the prime minister (Bonnett, 1985; Offe and Weisenthal, 1980). Policy makers also consult widely with business on key issues of concern, including trading policy, productivity and competitiveness.

The actual influence that business exerts on policy outcomes, however, is circumscribed by several factors. First of all, past policy decisions, or policy legacies, reduce the capacity for policy makers to enact change, even if pressed for by business. Second, power varies according to the size and relative importance of the business organisation concerned, including the sector in which it trades. Third, access to state decision–making institutions will be an important determinant of the extent to which business preferences shape policy outcomes and on how business chooses to exert influence. In some states, most obviously those with corporatist structures, there exists a high level of co-operation, co-ordination and consultation between governments and various stakeholders, including business. Fourth, the relative power and influence of rival groups is also important. Where trade unions are well organised and wider political support of the left is high, relative business power and influence is likely to diminish. Fifth, the extent of co-ordination among business and the political right is also important to the propagation and ascendance of business views.

Quite how business chooses to exercise agency, and how it formulates and communicates its own position, will be shaped by all these factors (Pierson, 1995). The important thing to bear in mind here is that lobbying and political engagement are not entered into lightly, and business will not seek to act on all issues. Calculations of the likely impact of political action, as well as the cost of failing to act, will be important to a subsequent decision to engage in the political process. Where structural power is high, business will often decide not to act – it will not need to. Whether and how business engages in the political process will depend on the issue in question and the stakes involved. Also important is the extent to which business is interested in an issue and whether it is united or divided. While most parts of business are interested in corporate taxation and capable of formulating a relatively united position on the issues, an issue such as the privatisation of health care divides business opinion, with private health companies lobbying hard for such moves and other parts of business, especially labour-intensive industries, fearing high employee insurance costs, as faced by their counterparts in the US. Other issues divide large from small companies and industrial from financial capital and still others hardly raise any interest at all from the business community.

Institutional participation

In addition to their ability to exert political pressure on policy makers, business actors increasingly shape welfare services through their occupation of key roles within them. It is common for business people to occupy board positions, and often the most senior roles, within government quangos, hospital and university boards, and school and college governing bodies. Business has also increasingly been integrated into services through the establishment of public–private partnerships (PPPs) designed to expose them to private sector values and ensure that public services better meet the needs of the private sector. Such partnerships range from relatively informal agreements with schools to set up work experience placements or staff exchanges, to formal and contractually based partnerships where responsibilities for the management and delivery of services have been passed to private companies, as in the case of some PFI deals (see below). Thus, even more than is the case with political participation, state-engineered openings to services are crucial to business inputs into services.

Provision and production

In addition to their political activity and institutional involvement in services, firms play important roles in the provision of services and the production of goods that are crucial to the delivery of those services. Firms involved in these activities can be sub-divided into six distinct categories according to the role they perform, as outlined below.

First, firms provide services to the end user. This is most important because firms in this category deliver welfare services directly to the public as an alternative to the direct provision of such services by the state itself. Such businesses include private providers of health and education services, among others. Payment for receipt of these services may also be based in the private sphere, in the form of insurance cover or out-of-pocket payments, or may come from a state agency, either in the form of a contractual subsidy or through a state insurance scheme. The extent of private provision will clearly vary between welfare states, depending on the extent of state provision and the form of welfare funding. So, for example, private hospital provision is much higher in the United States than it is in the United Kingdom, since Americans predominantly pay for their health care through private insurance arrangements, while the British health system is funded from taxation and largely provided by the state. However, current processes of reform in the UK health system illustrate how private provision of welfare services may be expanded through the use of tax-funded contracting (Holden, 2003).

Second, firms produce welfare-related goods. Welfare services rely on a range of goods which are largely produced in the private sector but which are crucial to the operation of state-provided services. So, for example, health services cannot operate without the use of pharmaceuticals and medical equipment, which are produced largely by global corporations. Similarly, schools cannot operate without the use of educational resources and (increasingly) information technology produced in the private sector. In order to secure the needs of its citizens, the state must thus regulate firms providing such goods in a number of different ways. In the pharmaceutical sector, for example, the state must regulate in order to ensure the cost effectiveness of medicines bought or subsidised by the public sector, the safety and efficacy of the substances produced and also oversee the research and development process in the pursuit of innovation and industrial policy goals.

Third, firms supply services both to the state and other service providers. Suppliers of services can be differentiated from direct providers of services to the end user, in that they occupy a distinct place in the value chain. While having no contact with the end users, such firms are crucial to the functioning of service providers, and therefore interact with state providers of services in similar ways to the producers of welfare-related goods. Ancillary services such as cleaning and catering are important primarily for reasons of cost control, and such services have been increasingly contracted out to the private sector in a number of countries in recent years. Suppliers of services also include those concerned with management and consultancy services, which have a more direct impact on the nature of the service provided to the end user as well as wholesalers and distributors of goods such as pharmaceuticals, and may therefore play a crucial intermediary role between producers of goods and direct providers of services.

Fourth, firms provide insurance and pensions and, although insurers are strictly speaking providers of services to the end user, we have placed them in a separate category as a result of the distinct nature of that service. As providers of a financial service, such firms either provide an opportunity to pool risk or to save for retirement. Insurers may provide payment for health or long-term care services, or insurance against sickness or disability, while pension funds provide a means of saving for an income in retirement. Such firms have a different relationship to the state than other providers of services, since they offer an alternative payment mechanism for those services that could be funded directly by the state. As manifestations of finance capital, they may also have a different relationship to other sectors of capital.

Fifth, firms invest in physical assets. These firms have also been placed in a separate category in order to reflect their distinct role. In order to operate, direct providers of welfare services must have access to physical infrastructure, primarily in the shape of buildings. Such assets may or may not be owned by the state, but are invariably designed and constructed in the private sector. The longevity of such assets and the large sums of investment necessary for their construction mean that they tend to play a different economic role to the other sub-categories of business discussed in this section. In fact they have a close relationship with finance capital, since they may provide a vehicle for long-term investment. So, for example, in the UK long-term care market, where the majority of provision is now carried out in the private sector, an extensive property market has developed involving real estate investment trusts (REITs). The larger providers of long-term care services have engaged extensively in sale and leaseback deals with REITs in order to fund their further expansion. The Private Finance Initiative (PFI) involves consortia in similar types of arrangement, whereby consortiums of private businesses finance and build physical infrastructure such as hospitals and schools and then lease them to the public sector over an agreed period (typically 30 years).

Sixth, firms make provision for their own employees. Occupational welfare is a form of provision which is distinct from the other types of provision in this category, in that firms themselves act as providers of benefits and services to their own workers. In some respects, occupational welfare merely represents one dimension of the total compensation paid to workers and is thus financed by employees themselves. However, it also forms important protection against various risks associated with the workplace. Statutory provision includes: employers' national insurance contributions (NICs); the funding and provision of some statutory benefits, including SERPS (state earnings-related pension scheme) contributions; occupational pensions (where employers' pensions schemes are provided as a substitute for state schemes); sickness benefits; maternity leave; and redundancy pay. Non-statutory provision includes a range of benefits that are made available for employees. Through these various forms employers influence the overall shape and size of social provision paid to employees.

These different sub-categories of provision are summarised in Table 1. They reflect different functions necessary for the 'production' of welfare, and, as such, any given firm may in fact be included in a number of sub-categories. A firm involved in the construction of a hospital, for example, may also provide management services as part of a PFI deal, and may simultaneously provide occupational welfare benefits to its employees. However, while the category of provision reflects functional roles rather than types of political engagement, the political significance of the involvement of private corporations in the provision of welfare services cannot be under-estimated. While it is government that ultimately sanction this involvement, such policies are difficult and costly to reverse. Once a corporation is involved in such provision, a private interest is created, at the heart of the welfare state, whose primary goal is the accrual of profit. Such firms then have open to them all the means of political engagement and institutional involvement described in previous sections in order to defend and extend their interests. Once granted, corporate involvement in welfare provision becomes difficult to reverse.

The contemporary picture

Having outlined our typology of business inputs into social policy, this section traces the changing emphasis placed on each of these during recent years in the

TABLE 1. Corporate inputs into social policy.

		Institutional participation		Provision and production					
Structural factors	Political engagement	Informal	Formal	Provision of services to end users	Production of goods	Suppliers of services to the state	Insurance and pensions	Investment in physical assets	Occupational welfare
Imperative to induce business to invest Social policy directed towards meeting the perceived or actual needs of business Only productive welfare thought to be compatible with contemporary economies	Lobbying Funding political parties Political participation	One-off corporate donations Provision of curriculum materials Workbased placements	Involvement by companies and business people in the management of state services Education Action Zones Health Action Zones Formal sponsorship deals (e.g. City Academies / Specialist schools)	Care homes Private toll roads Private schools Housing associations Private landlords Private hospitals	Pharmaceutical companies Medical equipment providers ICT companies Producers of educational resources	Catering firms Ancillary services Management services Consultancy	Health insurance companies Private pensions Sickness and personal injury companies Mortgage / loan protection schemes	REITs PFI Construction firms	Occupational pensions Training Nursery / Child care provision Counselling services

UK. First, however, we discuss the increased importance of structural pressures in shaping contemporary social policy.

The structured context of business inputs into social policy

As already noted above, the extent of corporate structural power is directly related to the extent of capital's mobility. Because of this, globalisation has had a positive impact on corporate structural power. Despite important evidence of the uneven speed and spread of capital between some parts of the world, there has occurred a rapid growth in internationally mobile financial and industrial capital as a result of a general relaxation in capital controls since the 1970s (Held *et al.*, 1999: 210). This has placed much greater pressure on nation states to pursue tight domestic monetary policy in order to foster confidence among financial traders (Held *et al.*, 1999: 229) and on labour to pursue wage claims and labour conditions that are compatible with competitive markets.

This is not to argue that under globalisation business is all powerful. Even under globalisation, states retain some autonomy. Capital is not as mobile as is often thought, and disunity often prevents it from pushing a single line on many issues. Yet the global context within which policy is made has become increasingly important to shaping welfare outcomes. The impact of globalisation on corporate power and social provision has not been uniform across states (Swank, 2002), but it has certainly had a dramatic impact on British social policy (for a review of the evidence on this see Farnsworth, 2004a).

One of the most obvious ways structural pressures have impacted on social policy has been the redirection of welfare services towards the perceived needs of business and the economy. Central to this strategy is the view that the more social policy is geared towards employers, the stronger will be the economy, the higher will be national income, and the lower will be unemployment and its associated problems. The exposure of the UK to competitive international markets and highly mobile firms re-framed the social policy debate for Labour so that only those forms of social provision that increased competitiveness and productivity were considered to be compatible with contemporary capitalism. Hence, where the government has sought to introduce policies that business has opposed on the grounds that they will undermine competitiveness, it has proceeded with caution and attempted to assure employers that the impact of reforms will be minimised.

> We will keep a flexible labour market. Even where you may have doubts about certain parts of policy – a minimum wage or trade union representation – remember: that we are consulting business every step of the way; and that taken altogether, the entire changes proposed would still leave us with a labour market considerably less regulated than that of the USA. (Blair's speech to CBI Conference, 14 April 1998)

Labour felt that by ensuring a better fit between social policy and the needs of business, the government would be in a better position both to continue to attract new investment and fund future welfare commitments. It thus set about trying to steer social policy towards business needs and attempted to locate more efficient ways of delivering services. Both strategies entailed the closer integration of business into social policy making and delivery. Hence, Labour did not require the protestations and representations of business to place corporate interests centre-stage: perceived structural pressures were enough to drive New Labour's corporate-centred social policy.

Political engagement

At the international level, business has become better organised and has played an increasingly important role within international governmental organisations (IGOs), including the EU. Since its options for exit, and therefore structural power, are diminished at the international and regional levels, including within the EU, business has had to rely much more on agency in order to influence policy outcomes at this level. The result of more successful lobbying has been that the gap between business views and international and regional governmental bodies has narrowed in recent years. International business[1] has helped to establish a consensus around social policy that has shifted policy agendas, including those of the major IGOs, towards a more pro-business one (Farnsworth, 2005). As a result, the EU's competitiveness agenda is almost identical to the key demands made by international business and, where policies to control the negative aspects of corporate activities have been proposed at the international level, strong lobbying from business has ensured that only voluntary codes of conduct have so far been introduced (ibid.). International business and IGOs have, in turn, pushed states towards productive corporate-centred social provision in which the private sector plays a more prominent role. While global social policy may have been made more necessary by globalisation (Deacon, 1997), it has been challenged by the rise of an increasingly well-organised and powerful international business sector.

Turning now to the national level, as far as political agency is concerned British business has had mixed fortunes in terms of access and success within the policy arena. The CBI, the UK's largest employers association, for instance, was initially excluded from the national policy arena during the early 1980s, replaced by the Institute of Directors as the business association of choice by the Thatcher Government. As a result, the CBI was actually consulted less after the election of the Conservatives in 1979 than it had been under the previous Labour administration. The early effect of this was that the relative cost to the CBI of exercising its voice at the national level was increased and this forced the organisation to examine new ways of how it might more effectively concentrate its resources on influencing government. One of its solutions was to place greater emphasis on mechanisms of business influence that were relatively inexpensive. It sought to improve its lobbying techniques through producing clear and concise policy statements and made more efforts to communicate the view of business direct to the general public through the greater use of press releases and by staging its high-profile annual conferences. It also placed greater emphasis on the role of individual business members and its regional branches in placing pressure on local government and local services. This coincided with central government placing increasingly rigorous requirements on local councils and service providers to ensure the integration of business representatives within decision-making structures.

While the voice of business was initially muted on the national level, however, central government increased the number of openings at the local level and increased both its voice and role in local services during the same period (see below). This changed again with the fall of Thatcher and the rise of Major as leader of the Conservative Party. The voice of business at the national level recovered as the new government sought to build bridges with industry. As a result, the Institute of Directors (IOD) was effectively re-consigned to obscurity and the CBI was reconfirmed as the most credible and representative voice of business. As for labour, its power was drastically reduced by a series of measures designed to reduce the ability of trade unions to take effective strike action, coupled by increasing levels of unemployment, which dramatically reduced trade union membership.

Under Labour, some limited trade union rights have been restored and trade union membership has increased, but the voice of business has also greatly increased in strength. Structural power has not diminished, and agency at the national and local levels has become more salient. As a result business was in a far stronger position at the beginning of the twenty-first century than it had been in decades. It has been consulted more frequently and co-opted into various decision-making bodies in a deliberate attempt to increase the voice of business in Britain. Labour's priorities were outlined clearly by Blair at the CBI's 1997 conference, which was the first time the employers' organisation had been addressed by a sitting Labour prime minister:

> when I last addressed the CBI's National conference, I promised a new partnership between New Labour and business. Six months into office, we have laid the foundations of that partnership. There are business people bringing their experience and expertise by serving in Government, on Advisory Groups, leading task forces, all contributing to the success of Government policy. But there is also great commitment and enthusiasm, right across the Government, for forging links with the business community. That this is the approach of a Labour government is of historic importance. It demonstrates we are entering a new era in British politics. (Blair, Speech to the CBI Conference, 11 November 1997)

So successful was the strategy to deliver this new politics that the outgoing president of the CBI, Clive Thompson, explained to the *Financial Times* that the working relationship between the CBI and the Labour government was, in 2000, 'probably closer than at any time in the last 25 years' and certainly closer than under the Thatcher or Major governments (Brown, 2000).

Neither has this improved access been limited to the main business organisations. According to official documents leaked to the BBC and Corporate-Watch in 2001, UK government officials briefed the leaders of some of the UK's and US's largest companies on their negotiating position at the 2001 General Agreement on Trade in Services (GATS) meetings, despite the fact that these negotiations were supposed to be conducted in private (Palast, 2001a, 2001b). More recently, the parliamentary ombudsman ordered the government to make public secret meetings between it and representatives of major corporations who lobbied the government for lucrative state contracts (Evans and Leigh, 2004). This followed allegations that one company, PowderJect, was awarded a £32 million contract, without having to compete with other firms, to produce a smallpox vaccine (ibid.). The chief executive of the company had previously donated £100,000 to the Labour Party and had met with Tony Blair prior to the decision to award the contract without competition, and prior to the contract finally being awarded. Following the decision by the Ombudsman, the government acknowledged that Tony Blair had met privately with other senior company executives with an interest in winning public contracts on at least six occasions between 2000–01 (ibid.).

With regard to social policy, the political engagement of business varies with the area of provision in question. Business responses are also often less well defined and less clearly expressed than in other policy areas and, as a result, business often responds rather than leads social policy reforms (Farnsworth, 1998, 2004b). The key predictor of the level of lobbying and engagement is the extent to which social policies have an *immediate and direct* impact on productivity and profitability, including labour costs, and the quality, costs and supply of the labour pool. The CBI, for instance, has tended to defend services that directly benefit business (such as infrastructure spending) and help improve labour productivity (such as education and training).[2] At the same time, the CBI has attacked spending on unproductive areas, such as wages and unconditional social security payments. It has also pushed for greater business involvement in those areas of social policy that increase productivity, especially those impacting on the skills of labour. While it has opposed spending on public sector wages, business has defended spending on purchases from the private sector, since they help to support business sales, including capital investments.

In many respects, there has been little need for organised business and firms to seek to influence social policy during recent years since, in most ways and in most areas, social policy has been steered in a pro-business direction by politicians. Structural influences, reinforced by globalisation, have promoted cuts in spending on unproductive services and expansion in productive services. Business has tended to become involved where it needed to make governments aware of the harm that some cuts were doing, or where it needed to develop the policy details within productive services: for example, setting the direction of education and training policy (Farnsworth, 2004a). Beyond this, it was enough to limit its campaigns to the major questions that were of key interest to most parts of business, such as tax reform and labour costs. Provided business could secure for itself cuts in general and corporate taxation and commitments to reduce spending in non-productive areas, it could limit its focus to these key issues.

With focused activity, therefore, business has successfully pushed for a more corporate-centred welfare state: social provision funded through taxation on labour rather than business; spending cuts, especially at the local level; cuts in corporate taxation, especially local business rates; the increased targeting of benefits; an increased emphasis on vocational skills within education; increased participation in post-compulsory education and training; the establishment of tighter educational targets; increased business involvement in key services; an increased reliance on outsourcing; increased targeting of social provision and reliance on private provision; and increased private sector inputs into services (see Farnsworth, 1998, 2004a). This renewed agency capacity has been complemented by increased structural power and a sympathetic international discourse so that nationally British business has not had to battle as hard as it might otherwise have had to in order to promote these kinds of reforms; social policy has been steered in a pro-business direction by Labour without much prompting. For the most part, it has been enough for business to limit its campaigns to issues of central importance to business: regulations, tax reform, access to markets and labour costs.

Institutional involvement

Labour's approach to the management of welfare services is really a continuation of a strategy which can be traced back to the 1960s. Governments since then have, with increasing vigour, sought to examine ways in which the welfare state might be transformed from one that was perceived to be damaging to business to one that could complement and reinvigorate the private sector. For Labour in the 1960s the answer lay in corporatist intermediation: the integration of organised labour and organised business into decision making and agreement structures covering a range of issues from pay to the establishment of local training strategies. The 1970s Labour government also kick-started the contemporary debate on the importance of closing the gap between state provision and the requirements of local employers. James Callaghan explained in his Ruskin College speech of 1976 that the failure of education to fit with the needs of business was the main cause of Britain's economic malaise. The answer lay, he argued, in the development of closer and more formal links between schools and local employers. The post-1979 Conservative government subsequently widened this debate to other parts of the welfare state, although, for them, the emphasis centred as much on how state services could *benefit* from the inputs of business people as how far social policies could meet the needs of business.

Under the Conservatives, business came to assume greater responsibilities and leadership roles in areas previously monopolised by local authority representatives including in education, housing, care services and transport (Oatley, 1998). Senior business people were statutorily guaranteed a majority presence on the Training and Enterprise Councils (TECs) and school governing bodies, and encouraged to get more closely involved in the running of health authorities and trusts, the government replaced local authority representation with business people and other 'stakeholders', and replaced local authority financing with direct central government grants, backed up with increasingly large amounts of private funding. With regard to the delivery of services, compulsory competitive tendering (CCT), first introduced in 1980 for construction and extended to other services from 1988, and the Private Finance Initiative (PFI), introduced in 1992, forced local authorities to contract out the management and delivery of provision to the private sector. The establishment of public–private partnerships and the increasing use of conditional funding from the 1990s, where monies were only released to councils for certain projects if partnerships with the private sectors were already in place (Coulson, 1997: 34; Coates *et al.*, 2000), sped up this process, increasing still further the opportunities for business involvement. By the time Labour came to power in 1997, therefore, business needs were already shaping welfare outcomes and business people had been well embedded into key services.

The Labour government enthusiastically built upon Conservative policies by seeking to embed business people, firms and values still further into social policy. While quasi-markets represented stepping stones to wholesale privatisation for the Conservatives, for New Labour private sector involvement in state social provision represented an ideal way to deliver services, where public finance would allow the private sector to deliver services more efficiently and more innovatively than the public sector alone could manage. Whereas previous Labour governments had tried to shield public services from what were felt to be the corrosive qualities of markets, New Labour has tended to view the private sector as the saviour of the welfare state from inefficient public sector managers and employees. As Falconer and McLaughlin (2000: 122) put it:

> A clear distinguishing feature of 'New Labour', as opposed to 'Old Labour', is the nature of its posture toward the private sector. A political party which once held firmly to the view that the State should play a leading role in the workings of the nation's economy now promotes the belief that very little can be achieved in government without the active support of business.

This approach to social policy built upon a more established view within the Labour Party and the social democratic left more generally, that social policy can and should underpin efficient and competitive markets. Under New Labour, the pursuit of such goals has been translated into policies that prioritise, fetishise and seek to embed private sector values, management and delivery systems into state welfare.

To increase the role of business within social policy beyond that already achieved by the Conservative government required radical institutional changes in both the public and private spheres. For the Labour Party, it began in opposition with changes to its own constitution. In 1995, Blair and his supporters fought an acrimonious battle within the Labour Party to change Clause IV of its constitution from one that proposed the nationalisation of industry to one that committed the Party to the pursuit of 'a dynamic economy, serving the public interest, in which the enterprise of the market and the rigour of competition are joined with the forces of partnership and co-operation'. The trade unions were told that there was no alternative but to increase private sector involvement in state services if the welfare state was to improve and survive and, at the same time, business was courted in order to prime it for the increased role Labour had in mind for it.

Under a range of initiatives, including Education Action Zones (1998), the expansion of specialist schools (first introduced by the Conservatives in 1994), and the establishment of city academies (2000), the government has encouraged increasingly formal engagement by business people and companies in the delivery of state services. Increasing attempts have been made to bypass local authorities altogether, beginning with the EAZs, where firms were encouraged to take the lead (Dickson *et al.*, 2002: 185), and culminating in 1999 with wholesale takeovers of failing schools by private companies (see below).

Given that the government has sought to increase the voice of business where it was previously relatively weak, it is no surprise to find that Labour has done little to weaken business where private interests had already dominated policy for some time. In opposition, Labour had been highly critical of the dominance of business and other elite interests on the management boards of TECs, but Labour's replacement of them by the Learning and Skills Councils (LSCs) was designed to 'give employers unprecedented influence over the education system and promote a better match between demand and supply for skills' (DfES, 1999: 10). Although trade unions and locally elected constituencies did find better representation within the new bodies, employers retained a dominant voice. In 2003, of the 15 members of the LSCs National Council, five were business representatives, including the Director General of the CBI, the Chief Executive of ATL Telecom, the former Managing Director of Coca Cola Great Britain, and former partner of Anderson Consulting. The Chair of the LSC was also the Chair of BUPA and the former Managing Director of BP. The rest of the members were made up of various educationalists and government workers along with John Monks, who in 2003 was the outgoing General Secretary of the TUC. The vast majority of the local LSC Chairs and Executives were also occupied by senior business people (Learning and Skills Council, *Who's Who*, 2002/3). Moreover, since the responsibilities of the LSCs were extended to cover education–business partnerships and further education in addition to post-16 vocational training, the scope for business influence on provision has been widened still further under these new bodies.

In health care, too, the government looked to business to help provide answers to perceived failings in the sector. Although attempts had already been made by the Conservatives to increase business involvement on various health boards during the 1980s (Ashburner and Cairncross, 1993; Cairncross and Ashburner, 1992; Farnsworth, 2004a, 2006), New Labour has found new ways of integrating business into health care. Health Action Zones (HAZs), for instance, were established in 1997 as an attempt to develop innovative and integrated solutions to local health care needs in partnership with the voluntary and private sectors (Whitfield, 2001: 106–7). Later, the government moved from this relatively benign initial involvement of business in health service management to more concerted efforts to integrate the private sector into the NHS. Towards this end, Foundation Hospitals were established in 2004, which would operate as semi-independent public companies in competition with other Trusts. The Labour government also deliberately set out to recruit senior private sector managers for key positions within NHS boards (Carvel, 2003).

The government has also looked to the private sector for assistance in the running of its New Deal programme. Most obviously, the success of the New Deal depended on employers participating in the scheme by offering work placements and training, albeit with inducements. In addition, the government outsourced the running of some New Deal services to private companies (Griffiths, 1998: 4), and senior business people have been drafted in as advisers and managers. The Chief Executive of Prudential, for example, was appointed as chair to the New Deal Task Force, while the Chief Executive of Barclays Bank was given the task of overseeing a review of benefits and the tackling of social exclusion.

Provision and production

The extent of corporate involvement in the different types of provision outlined earlier varies greatly. The production of certain welfare-related goods has always been undertaken predominantly in the private sector. This is particularly true of pharmaceuticals and medical equipment, where huge global corporations dominate production (Holden, 2005). The pharmaceutical sector in particular has been undergoing a profound process of global concentration driven by the perceived economies of scale necessary for research and development if innovative new drugs are to be continued to be discovered. As indicated above, governments have found it necessary to balance the need to regulate such firms with the need to develop them as key industries in a competitive global market.

Suppliers of services to state providers have also often been located in the private sector, with a number of large, often internationalised, pharmaceutical and medical wholesalers acting as intermediaries between producers and state providers of services. Ancillary services such as cleaning and catering have often also been moved into the private sector where once they were provided 'in-house', as governments have sought to cut costs and realise perceived efficiencies.

As far as health is concerned, private insurance services have not increased significantly under New Labour and public spending in this area has increased significantly. Pensions, on the other hand, have been increasingly shifted into the private and quasi-private sector with the expansion of stakeholder pensions. However, as we have seen above, to the extent that direct provision of welfare services is shifted into the private sector, the scope exists for the development of an extensive market in physical assets investment. Furthermore, the UK government is in the process of expanding this type of activity enormously through school and hospital projects involving PFI.

With regard to occupational welfare, successive governments have been increasingly eager to encourage expanded work-based social provision as contemporary political and economic pressures have reduced the room for governments to borrow and raise additional revenue from higher personal and corporate taxes in order to fund state provision. In addition, employers have been asked to play a more active role in the co-ordination and, in certain cases, the funding and delivery of state benefits, including sickness benefits, maternity benefits, tax credits and the various forms of provision associated with the New Deal. Employers have also been asked to increase their own provision in order to improve the 'family friendliness' of employment and to assist with the costs and administration of benefits that were previously the sole domain of the state. Despite these rising expectations, however, firms have been reluctant to increase the size of occupational welfare and have resisted government attempts to place more responsibility on employers for the co-ordination of state provision. What this has meant in practice is that, while the cost of statutory provision has increased, employers have reduced the relative size of their voluntary contributions over the past 20 years (Farnsworth, 2004b).

However, perhaps the most important area of corporate involvement is in the direct provision of welfare services. The extent of this varies greatly between particular sectors, although private provision here is generally less developed than in many of the other types of provision. In the UK, for example, it is now the norm for long-term care to be provided in the private sector, while hospital provision is predominantly undertaken directly by the state. However, recent changes have seen private companies being brought in to take over the management and delivery of some NHS services. In the first such move, Secta, a private consultancy firm, was awarded a £1.3 million contract to take over the 'failing' Good Hope hospital trust in Birmingham in September 2003. Secta is also involved in a number of PFI projects in the NHS. The private sector has also been invited to bid for contracts to run fast-track surgeries which are being set up by the government to help tackle waiting lists (Dean, 2003). In one of the first such developments, the construction firm Jarvis was awarded a joint contract with Interhealth Care Services, a Canadian health company, to build and run orthopaedic units for patients waiting for hip or knee replacements in January 2004 (Carvel, 2004a). The government also commissioned Netcare, a South African private health company, to carry out cataract operations from 2003, placing pressure on primary care trusts (PCTs) to sign up for the deal even against local wishes (Carvel, 2004b). The chairs of both the PCT and strategic health authority in south Oxfordshire, for example, resigned following pressure to sign up with Netcare. The chair of the strategic health authority explained in an interview with the BBC that:

> We were under tremendous pressure to get a yes vote . . . at all costs . . . because the centre [Whitehall] wanted it to happen. (File on Four, 2004)

Similarly, a number of councils have been forced to contract out all or part of their educational services to private firms, including in Bradford, Islington, Southwark and Hackney. Other authorities, including Birmingham and Leeds, have called in government-approved private consultants to help address the problems of failing schools (UNISON, 2001). The Local Government Association, however, was prevented from establishing an alternative public sector strategy for tackling LEA failure (Slater, 2003). The 2002 Education Act (under part 5, section 70), meanwhile, required that where an LEA seeks to set up a new secondary school it must invite proposals from interested parties, including private firms. In yet another indication of the faith that Labour has in business to devise solutions to perceived failings in the public sector, it awarded a £1.9 million contract to Jarvis to raise standards in 700 failing schools in England and Wales through the setting up of a network to help local authorities disseminate good practice (Slater, 2003).

Private companies have also been awarded contracts to run Employment Zone services, where claimants and advisers decide how funds pooled into Personal Job Accounts (PJA) might be used to develop 'tailor-made' assistance. In 2000, the employment agency Reed was contracted to run services in Haringey, Newham and Liverpool, and Pertemps the service in Birmingham. A consortium between Manpower, Cap Gemini/Ernst and Young and the Employment Service was also awarded contracts to run seven Employment Zones.

While such developments still represent a minority of those welfare services which have traditionally been run directly by the state in the UK, there are a number of reasons why we might expect direct corporate provision of welfare services to grow significantly in coming years. The first of these reasons relates directly to the activities of the state. Governments are increasingly prepared to transfer the provision of welfare services into the private sector, where previously they have been undertaken by the state. The reasons for this are complex but relate to ideological factors and to both the structural and agency power of businesses themselves, as already discussed. Ideologically, the perceived failure of communist and social democratic alternatives to the market has strengthened the notion that the market necessarily does things better than the state. Structurally, processes of globalisation have led to an emphasis on competitiveness, and a concomitant desire on the part of governments to act in the perceived interests of business. In this climate, businesses have found it easier to use forms of political engagement and institutional involvement to promote their specific interests. The policies of governments in a range of social policy areas have thus permitted an expansion of direct service provision. Where systems of public provision already exist, this has often been accomplished through the implementation of a purchaser–provider split, whereby services continue to be funded by taxation but may be delivered by private sector providers. Thus, even where private insurance has not expanded, public money has been used as a means of increasing corporate provision.

Processes at the international level may also have a significant impact on the extent of direct private provision, as well as the degree of internationalisation of that provision. The provisions of the General Agreement on Trade in Services (GATS) may come to have a profound impact on the ways services are delivered in developed, as well as developing, countries. GATS is the key negotiating mechanism of members of the World Trade Organization (WTO) for trade in services, and forms a central part of the current Doha round of negotiations. The provisions of the GATS are complex, but their primary goal is a steady increase in international trade in services, including health and education. In order for a service to be subject to the full provisions of the GATS, governments must choose to include them through making a series of 'commitments', and commitments on health and education services are currently fairly minimal (Adlung and Carzaniga, 2003). However, the aim of WTO negotiating rounds is 'progressive liberalisation' and, once undertaken, GATS commitments are extremely difficult to reverse. Furthermore, business organisations have played a key role in lobbying for further liberalisation, and are likely to continue to do so.

Conclusion

This article has mapped out the various forms of business input into social policy under three key headings: political engagement, institutional participation, and provision and production. These forms of business input relate to corporate agency, but such agency is set within the context of structural factors affecting corporate power. We have argued that the structural power of corporations has increased in recent years, primarily as a result of the greater mobility of corporate investment associated with processes of 'globalisation'. However, what is important is how governments respond to these new conditions. In the UK, governments have responded by attempting to shape social policy so as to meet the perceived needs of business, and by embedding business within the welfare state, both through its increased participation in the management structures of welfare services and by increasing the opportunities for private sector provision of services previously provided directly by the state. In doing so, governments have sometimes led businesses in creating openings for their increased input into social policy, and sometimes responded to pressure from the political activities of businesses and their associations. Political processes at the international level have facilitated this, as a result of both the dominance of neo-liberal ideas and as a result of international corporate lobbying. International processes such as the GATS negotiations are likely also to facilitate the internationalisation of business inputs into social policy, as international markets in welfare services begin to emerge.

The result of these processes is that business has never been so embedded in social policy. These developments do not, of course, represent a return to a period when the state intervened minimally in social questions but the adaptation of the welfare state to both the articulated and perceived interests of business. As such, they may well come to undermine social policy, as business interests become entrenched at the heart of the welfare state, thus potentially limiting the scope of policy in the future. Nevertheless, it is important to understand that business power can vary over time, and that business interests will differ between firms and sectors. In fact, businesses and their associations may not always be clear about what is in their own interests, and governments have played a key role in interpreting what is in the interests of businesses and implementing this. The key role of governments in providing openings for businesses and in responding to business demands should alert us to the fact that alternative approaches are possible, and that current policies can be contested.

Notes

1 Led in particular by the Business and Industry Advisory Committee (BIAC) to the OECD, the International Chambers of Commerce (ICC); the European Round Table (ERT); the Union of Industrialists and Confederation of Employers (UNICE).

2 For a detailed discussion of the approach of organised business to social policy (see Farnsworth, 1998, 2004a).

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