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Chapter 1

Business, Government and Globalization

Introduction

It may be an obvious truism that business and government are the most important institutions within market economies. Business involves itself in an economic market; governments carry out their activities in response to the demands of a political market. Business and government are not separate; their spheres of activity necessarily overlap, and the relationship between these great forces is crucial to the societies in which they interact.

Despite what is often an uneasy relationship, business and government are dependent on each other. Governments need business to provide employment for their citizens, to provide taxation revenue, to provide the goods and services demanded by societies; in short to provide the prosperity demanded by the citizenry, which is essential too for political survival and social well-being. Business also needs government, no matter how much business groups may speak of the desirability for government to get out of the way of business. Business needs government to provide a system of law for the enforcement of contracts, infrastructure, education, regulation and the like. Markets may arise without government – trade and barter existed long before formal government organization – but they are likely to remain underdeveloped without the institutions provided by government. The earliest formal business organizations – chartered companies – were sponsored and created by governments through the political system and it is still the case that business must operate within the legal framework set up by governments. An anarchical business world might be able to exist – some form of market has existed in all societies – but it is unlikely to be one that thrives.

In recent decades, the most important factor impinging on the business–government relationship has been the internationalization
of business; what was once seen as domestic business has become essentially international business. Governments have had to respond to what could be seen as a challenge to their authority and in many parts of the world they face quite similar problems with regard to their interaction with business. Policy areas and policy responses by different governments tend to converge even if they do not necessarily become identical; there are fewer issues that are purely domestic. Even an issue normally regarded as domestic, such as taxation, has its international dimensions. Responding to transfer pricing, where a multinational company can avoid taxation by manipulating the price its subsidiary in one country charges its counterpart in another country, requires cooperation between different national taxation authorities. There has also been some convergence of business taxation across nations as national governments, fearful that businesses will leave or not invest, lower their rates to similar levels to those of other countries. Environmental regulation, once considered to be domestic public policy, is now much more international with agreements such as the Kyoto Protocol on greenhouse gas emissions affecting government and business within a single country. In the same policy area, the activities of worldwide non-governmental organizations (NGOs), such as Greenpeace, often target particular businesses and indirectly their national hosts.

Most of the policy areas in succeeding chapters illustrate the international character of much of the business–government relationship. Trade, the environment, protectionism, competition policy have aspects that are international, even global; theories of regulation find application in a variety of national and international settings.

The increase in internationalism, or globalism, has led theorists to postulate that ‘globalization’ is upon us all. The extent of globalization or whether or not ‘globalization’ is as accurate a description as ‘internationalization’ are questions on notice for later discussion (Chapter 10). For now, though, it is clear that it is more and more difficult to separate the local from the national, the national from the international, and the international from the global, in the relationship between business and government.

Business, government and globalization, then, are ever-present in debates over the future directions of societies. The first two of these have been around for a long time, but could be argued to be constantly reinventing themselves and adapting to changes in the soci-
etal environment. And, even if the precise meaning of globalization is not altogether clear – as will be discussed – the current era is one of greatly enhanced international contact and economic integration. It does appear that the relationships between business, government and globalization are of much increased importance and that this importance is not likely to diminish in the foreseeable future.

**Business**

Business and government are substantially different from each other, even at the most fundamental level. They operate from differing perspectives on their role. It can be argued that business relies on choice, persuading consumers to buy its products; governments rely on force and compulsion. From another viewpoint, business relies on base individual motives where government results from people working together; in a democracy, government is presumed to be the collective will of the society. Through business, individual desires for goods and services can be created and supplied; through government, there is provision of collective goods and services for the shared needs of the community.

A good working definition is that business is ‘any organization that is engaged in making a product or providing a service for a profit’ (Lawrence, Weber and Post, 2005, p. 4). Business can refer to a single firm; business can also be a wider societal actor, as in a group of businesses in the same or different industries – the business interest.

The etymology of the word ‘business’ is curious. *The New Shorter Oxford* finds two main meanings with 16 finer definitions. The first main meaning is that of ‘the state of being busy’, which hardly explains much. The second main meaning is ‘the object of concern or activity’ with the definitions of ‘a profession, a trade’ dating from the late fifteenth century, and the more common usages today – ‘trade; commercial transactions or engagements’ – dating from the early eighteenth century; and a business in the sense of a firm – ‘a commercial house, a firm’ – dating from as recently as the late nineteenth century. Businesses engage in the market for goods and services, in trade, in transactions, in activities that are voluntary at base. A business cannot force a potential client to buy its wares, it can only attempt to persuade. For the most part, markets and the businesses that serve them supply
private goods or services, where consumption devolves to whoever paid for them and others can be excluded. A person who buys a motor vehicle can exclude others from using it; the car has an owner.

**Government**

Government is at base about the legitimate use of force, the exercise of authority, the word deriving from the Latin *gubernare* meaning steer, direct or rule. A government is the institution that has the authority to make laws and rules. Being able to use force, even if this is not often invoked, is a difference in kind from the private sector.

The public sector is defined by Hicks as ‘engaged in providing services (and in some cases goods) whose scope and variety are determined not by the direct wishes of the consumers, but by the decision of government bodies, that is, in a democracy, by the representatives of the citizens’ (1958, p. 1). The public sector is the result of public, political decision-making, rather than involving market processes. Governments are command-based – they can force people to comply – where markets are voluntary. Governments provide public goods and public services and businesses do not, although governments have often supplied private goods as well.

Even if governments have the legitimate usage of force at their disposal, it would be more correct to say that only in the final analysis and in rare instances are the police or the army needed to be used as enforcers of government will. Most people in societies, particularly democracies, obey willingly. Many societies would be unworkable if they were only based on force. Through participation in the choosing of governments and in limiting their powers, citizens more often regard government as their own creation. Even the delegation to the legal system of each individual’s ability to exercise force is of general benefit.

**Globalization and internationalization**

The term ‘globalization’ is frequently used to describe a trend following from the obvious increase in linkages, in economies and societies being apparently closer than ever before. There are many
arguments about what globalization is, whether or not it is already here, or whether or not it is even able to be defined (Bisley, 2007).

One view of globalization, as set out by Keohane and Nye (2001), is that it is essentially an end-state, the logical extension of interdependence and globalism. Interdependence refers to mutual dependence and, in world politics, ‘refers to situations characterized by reciprocal effects among countries or among actors in different countries’ (Keohane and Nye, 2001, p. 7). Countries may depend on each other, but are clearly still independent. For example, the Detroit-Windsor area is a major hub of the motor vehicle industry, despite the fact that the former city is in the US and the latter is in Canada. Canada and the US are each other’s major trading partners, but they remain interdependent and regional rather than global.

Globalism is a kind of interdependence referring to multiple relationships not single linkages, to multi-continental distances not regional. Like interdependence, globalism can increase or decrease. It is a process. Keohane and Nye refer to four different dimensions of globalism – economic globalism which is the ‘long-distance flows of goods, services, and capital, and the information and perceptions that accompany market exchange’; military globalism, ‘long-distance networks of interdependence in which force, and the threat and promise of force, are employed’; environmental globalism, ‘the long distance transport of materials in the atmosphere or oceans or of biological substances such as pathogens or genetic materials that affect human health and well-being’; and social and cultural globalism which involves ‘movements of ideas, information, and images, and of people – who of course carry ideas and information with them’ (Keohane and Nye, 2001, pp. 231–2). Globalism has existed for a long time, but early globalism was ‘thin’, meaning that although there was some interaction between different parts of the world it was not substantial. There was some economic linkage between Asia and Europe in medieval times – silks and spices were traded over the Great Silk Road – but it was a limited form of interchange and an example of ‘thin globalization’ (Keohane and Nye, 2001, p. 233).

In this meaning of the word, globalization refers to an increase in globalism, or ‘the process by which globalism becomes increasingly thick’ and the ‘degree of thickening of globalism is giving rise to increased density of networks, increased institutional velocity, and increased transnational participation’ (Keohane and Nye, 2000, pp. 7–9). In this view, globalization can be seen as an end-point, a
state of finality, where the process of increased globalism has effectively ended.

A second view of globalization is that rather than an end-state, it is a process. Globalization in this sense is synonymous with ‘globalism’ as defined by Keohane and Nye. Seeing globalization as a process is more akin to the normal meaning of ‘globalization’ in discussion in the community as a whole. Held et al. define globalization as ‘a process (or set of processes) which embodies a transformation in the spatial organization of social relations and transactions – assessed in terms of their extensity, intensity, velocity and impact – generating transcontinental or interregional flows and networks of activity, interaction, and the exercise of power’ (1999, p. 16). This is very much a process view.

Bisley argues that globalization is ‘a set of related social, political and economic consequences of a series of transformations in the social world, though the causal character of the transformations is uneven and often very unclear’ (2007, p. 30). This correctly points to globalization being wider than economic change, but is, in essence, a process view not dissimilar to that of Held et al. (1999).

The end-state definition and the process definition are very different from each other. Here, however, the distinction does not need to be drawn too far, as the discussion is about the relationship between business and government in an age of globalization and either or both definitions are adequate for this purpose. It will be argued later (Chapter 10) that while there is an undoubted increase in globalism and that this may well have accelerated in recent decades, the end-point or end-state of globalization, under the first meaning, has not yet arrived. The process of globalization, in the second meaning, is clearly ongoing. Much of the increased activity and action is between nations or bodies representing nations and, therefore, ‘internationalization’ is, arguably, a better term for now.

**A single economic model**

The end of the Cold War and the collapse of communist regimes means there is one dominant ideology throughout the world, one relying on free markets and an open trading system. This system is global, as it includes all countries with the possible exceptions of North Korea and Cuba.
It follows that capitalism has no serious ideological competitor now in the economic sense, although international concerns over terrorism do illustrate another kind of threat to the capitalist system. As long as countries like East Germany or the Soviet Union existed, even if in practice they were at some remove from idealized communist or socialist societies, there could be arguments that there was more than one competing economic system. Even China, once the archetype of one variant of communism, started in 1978 to become part of the world economic system and has since become more and more of a society operating on free-market principles even as it is still governed by the Communist Party.

There are substantial divisions that remain between nations, even, as some argue, a ‘clash of civilizations’ (Huntington, 1996), particularly in the religious sense with threats of long-lasting conflict between Christianity and Islam. But what there is not is a conflict over economic organization of the same kind as that between capitalism and socialism and countries professing to be from one or the other credo. Class-based economic conflict arguably started with the 1848 revolutions in Europe and the *Communist Manifesto* by Karl Marx and Friedrich Engels of the same year and persisted for more than a century. In 1989, the fall of the Berlin Wall symbolized the end of the communist regimes of Eastern Europe, although some, notably Hungary, had started earlier. The Soviet Union did not intervene and later went through its own abandonment of communism. And after this, there appeared to be no serious competitor to capitalism and the world trading system.

The seeming triumph of capitalism in defeating communism was followed, in 1992, by Fukuyama who argued that there was an ‘end of history’, an end of ideological conflict as societies were either liberal democracies with market systems or aspired to those things. He argued that liberal democracy had ‘conquered rival ideologies like hereditary monarchy, fascism, and most recently communism’, that liberal democracy may constitute the ‘end point of man’s ideological evolution’, the ‘final form of human government’, and this meant the end of history (1992, p. xi). He argued that the *ideal* of liberal democracy could not be improved. Liberal democracies were not without problems, but ‘there is now no ideology with pretensions to universality that is in a position to challenge liberal democracy, and no universal principle of legitimacy other than the sovereignty of the people’ (Fukuyama, 1992, p. 45).
Fukuyama’s view now seems to have been very time-specific and not borne out by subsequent events. In the economic sense, the market system prevails around the world, although Venezuela and a few other Latin American countries are trying a different path. But conflict over economic systems is no longer as central to debate as it once was. Conflict has not ceased, but is more about cultural, ethnic, religious difference and separatism rather than economic. The liberal ideal has by no means won.

In looking at the long conflict between the theories of capitalism and socialism, Stiglitz argued (2001, p. 341):

For almost a hundred years, two theories had competed for the hearts and minds of people struggling to break free of poverty – one focusing on markets, and the other on government. The failure of the socialist economies appeared to demonstrate that the second model was not viable. But another conclusion sometimes drawn, that markets by themselves would provide the answer, also has not been justified by economic theory or by historical experience.

If markets do not provide the answer by themselves, it follows that there is a real and substantial role for governments in ameliorating market forces, in making firms actually compete, and in maintaining public support, even as positive features of markets – allocation without governmental fiat, individual opportunity and entrepreneurship – are kept largely intact. As Mintzberg argued following the fall of communist regimes in Eastern Europe, ‘capitalism did not triumph at all; balance did’, adding that ‘we in the West have been living in balanced societies with strong private sectors, strong public sectors, and great strength in between’ (1996, p. 75).

A consistent argument here is that while markets are powerful, they exist and thrive due to benefits they receive from government. A market system needs laws to enforce contracts. A market system needs laws to protect property, and to protect persons from physical harm. Markets need governments and even if there are legitimate arguments about whether or not a particular activity belongs in the public sector or the private sector, a pure free-market society is as illusory as a pure socialist society was. Government is needed to do many things, not least to allow a market to run well. Individuals will set up markets by themselves, in the sense that individual trade is an innate characteristic. But without the full
panoply of regulation and laws, such markets are not likely to be optimal.

In the 1980s and 1990s, there were arguments made that governments needed to disappear and leave the scene to corporations. Writers such as Ohmae (1990, 1995) would declare that government, national governments, had no role in the global economy. What role there is has been greatly reduced and the less it does the better. The efficient, enterprising, innovative parts of society are companies. Ohmae’s view was not one that attracted a lot of supporters and is found much less often in more recent years. With societal crises, especially after 2000, there were increased demands on government. Only government could act in many areas; it was not about to wither away. Its direct economic role, notably in running its own enterprises, did decline but there were many other areas – security, defence, social regulation – where it was bigger and more intrusive than ever and with general public support.

The biggest problem with the minimal-government point of view is that it relegates politics and political action to a minor role and there is no evidence that the affected citizenry in the advanced societies will accept this. Economic outcomes are the resultant of market forces as well as political forces and it could be argued that any society dominated by one or the other is unlikely to be particularly successful. Societies where the forces of the market and those of government and politics are in reasonable balance, such as in Europe, North America, Oceania and parts of Asia, are historically those which perform best. There may be some contesting of the precise shares of political and market forces, but the basic parameters remain largely settled.

Approaches to business and government

There are differing ways of looking at the relationship between business and government. The most common accounts of business–government relations have tended to see interactions as taking place firmly within the nation-state, or are comparative accounts as between nation-states. The argument here is that while nation-states are undoubtedly important, the relationship between business and government can be looked at from an international perspective of principle and theory and common approaches to shared policy problems.
An example of the domestic kind of business-and-government study is that of Weidenbaum (2004) which focuses on domestic business and government; the institutions and policies looked at are those of the United States, including the US Constitution and its guarantees of economic freedom. This perspective is understandable given the size and importance of the US economy. The wealth of detail about interactions between government and business in that country is well explained by Weidenbaum but it is always possible that the particular instance is not generalizable to other countries.

Wilks (1999, pp. 156–9) refers to six models of economic policy and the distinctions between them may be used for examining interactions between government and business. The first perspective is that of pluralism and liberal democracy where government, political and bureaucratic, mediates over the demands that derive from the society and deals with them by attempting to balance the various interests and does so democratically. The second is what Wilks terms neo-pluralism: vested interests and policy networks, where public policy-making is segmented and the agencies or groups with an interest in the field ‘cooperate, recognize their dependence on one another, and strike bargains that are at least minimally acceptable to all core actors’. The third is corporatism, which is a system where three key parties – peak business groups, organized labour and government – negotiate and come to agreements at that level which are then imposed on the society at large. The fourth perspective is that of regulatory capture and the power of business. In this view, business becomes pre-eminent and controls political life. As will be discussed later, regulatory agencies may be captured by the businesses they are meant to be controlling and thereby become ineffective. Wilks argues that business ‘may acquire excessive political power. It may distort policies, exploit vulnerable groups within society, and may pursue support and subsidy rather than efficiency and competitiveness’. Fifthly, there is the perspective of bureaucratic power: the administrative state, where the bureaucracy is regarded as being in effective control of government. To Wilks, ‘they dominate policy making by developing legislative options and by the use of discretion in implementing policy’, and they can ‘utilise secrecy, information, permanence, patronage and bureaucratic networks to influence politicians towards their desired policy goals’. Finally, to Wilks, there is the new institutionalism and historical continuity. In this
Politics and policy-making do not start anew but work with and through existing institutions which structure ideas and behaviour. The new institutionalism explicitly recognizes the possibility of change and conscious institutional design.

A second approach to business–government relations is one that is expressly comparative. There have been comparisons of industrial policy focused on Asia (Wade, 1990) which suggest that a more interventionist approach by government can improve the competitiveness of business and, consequently, the nation. It is also possible to argue that there are differences in approach in different countries but these can be examined comparatively, by looking at business-government relations in particular countries (Wilson, 2002).

Another interesting approach is that of Lodge (1990) who argues that the business-government relationship of states can be divided into two classes; individualistic states, such as the United States, and communitarian states, exemplified by Japan. Individualistic states are those where government is seen as not being the answer to societal problems and its powers should be minimized. In such societies, there is an individualistic and adversarial government–business relationship. In these societies, business tries to limit the impact of government policies and actively lobbies to reduce the influence of government. National governments ‘whose function is as much as anything to protect the individual, tend to be more fragmented and decentralised and accompanied by loosely organised business groups with which it has distant, if not adversarial, relations’ (Lodge, 1990, pp. 3-4). The states where individualism was dominant were the English-speaking developed countries – the US, UK, Canada, Australia and New Zealand.

Outside these few the idea that business and government are necessarily locked in conflict is regarded as unfamiliar. In a communitarian state, to Lodge (1990, p. 4):

government is prestigious and authoritative. Its function is to define community needs over the long term and short term and see they
are met. Government is a vision setter, it defines and ensures the rights and duties of community membership. Government plays a central role in creating or imposing consensus, even by coercion. Communitarian societies may be either hierarchical or egalitarian.

Lodge argued for Western states, particularly the US, to learn from the communitarian countries. He argued that for the global firm, ‘an obvious need emerges to manage governmental relations in a far more sophisticated way than in the old days when government was regarded as merely an obstacle to be hurdled’ (Lodge, 1990, p. 13). How well a business handles its relations with government can assist its competitive position.

In an analytical sense, there may be something in the distinctions made by Lodge between individualistic and communitarian societies but these are less appropriate than they once were. The problem with such views is that they still take place firmly within the nation-state. Even if nations are being compared, there is behind them a realist notion of the role of the nation. In this, governments may pursue their own economic policies without constraint and businesses, even if multinational, also fall within the power of the nation-state. With all of these the frame of reference is still firmly that of the nation-state, but since the early 1990s, the debate has moved on.

It is argued here that the business-and-government relationship should be looked at from an international perspective. If a business transaction is carried out completely on one side of a border, it is not international; if a part of the transaction crosses the line it becomes international. It could be argued that the innate content of the transaction has not changed and that business is business wherever it is carried out. But the key point is that when a transaction crosses a border and becomes – by definition – international, governments are inevitably involved. There are problems of air pollution or security or global warming that are not able to be considered by any one nation. Held argues that some of the most fundamental problems ‘are not issues which can any longer be solved by states or a people acting alone’, rather, we are all in ‘a world of “overlapping communities of fate,” where the fate of different peoples is interconnected, set either by powerful states or by processes – from financial markets to the environment – which are global in their scope and ramifications’ (Held et al., 1999, p. 445).
Despite this, national governments do retain substantial power within the area of their jurisdiction and are unlikely to give this up. In addition, governments have standing in the legal sense in dealing with other nations through the various forms of diplomacy in ways that business does not have.

One important lesson is the more limited room for manoeuvre national governments now have. Domestic economic policy must be made in such a way as to satisfy international markets, particularly currency markets. Government actions incur an immediate response from foreign exchange markets which limits the range of conceivable policies. Particular groups may also demand political favours because of their importance for trade. These points together mean that, as the domestic economy becomes more integrated into the international economy, domestic politics is much more constrained than it once was. Governments find their powers are even more limited because there are more events beyond their immediate control.

It is not possible to completely separate domestic concerns from comparative or international, indeed they are often present in the same policy issue. A seemingly domestic environmental issue, such as water quality, can be influenced by international standards and even by the cross-border flow of pollutants. An international issue such as global warming has direct domestic implications on industry, on living standards and the responses of foreign governments can affect domestic policy.

**Inwardness and outwardness**

Approaching the relationship between business and government as something that only takes place within the nation-state misses considerable parts of the interaction. Businesses often have to deal with many governments. National governments have to deal with domestic and international companies, other governments as well as interest groups, domestic and international, that interpolate themselves into the policy process. Business–government relations are much more complicated than they once were.

Seeing the business–government relationship as being largely about international business or the competition between nations also misses an important dimension. Within a society there are those who are comfortable with being part of an international or
global community and those who are not. In other words, the propensity to be international in outlook or not is often a dividing line within societies. For instance, even as the United States has most often favoured free trade and open markets, there are many within that society who actively oppose these ideas. On many international issues there is a lively debate within societies and differing points of view, rather than a national consensus.

For instance, within economics and for most policy-makers in the developed world, free trade is a desirable end in itself and one that promotes the overall public good. But this view is not shared by many within societies, who often have, as will be discussed later, a view that industry protection or promotion must be better for the nation and its workers. Such views cross traditional political lines; many on the left and the right would agree, as do similar groups in other societies. Policy-makers then must be mindful of simultaneous domestic and international impacts – both political and economic – from what they decide to do.

Different views over the increased importance of international business cross the older, ideological dividing lines. Within societies the debate over business and government tends to be between those who wish to be more actively part of the world economy and those who oppose this, Norris refers to this as between ‘nationalists’ and ‘cosmopolitans’. She argues (2000, p. 159):

Nationalists can be understood as those who identify strongly with their nation-state, who have little confidence in multilateral and international institutions, and who favour policies of national economic protectionism over the free trade of goods and services. In contrast, cosmopolitans can be understood as those who identify more broadly with their continent or with the world as a whole, and who have greater faith in the institutions of global governance. The nationalism-cosmopolitan dimension can be expected to crosscut traditional ideological cleavages, although there may be some overlap.

This is a useful distinction. The relationship between government and business and conflicts over their roles are now far less often about the traditional differences between capital and labour or over redistribution through a social welfare system, and much more about views and attitudes to internationalization or globalization. It is becoming common for the workers and businesses in
an industry sector to jointly press for government action to, say, restrict imports of competitors' products, rather than for there to be traditional conflicts between the two over wages and conditions. Or, depending on the issue at stake, there can be traditional ideological conflicts one day, followed the next day by cooperation. Far left and far right seem to find common cause over such matters as the apparent decline in national sovereignty.

In the specific area of trade, Bhagwati argues the need to distinguish a cosmopolitan view from a nationalist one (1988, pp. 33–5). The cosmopolitan view is that freer trade is good for the entire world and that governmental attempts to artificially improve one nation's comparative advantage should be ruled out. The nationalist view is that trade needs to be managed for the national benefit. The GATT and WTO are essentially cosmopolitan institutions but it is also the case that individual nations are more likely to act in trade for nationalist reasons with the cosmopolitan effects only incidental.

On a relatively straightforward – if enduring – issue, such as free trade versus protectionism, debate may focus on the views of particular nations. More important than this perspective is the divide within countries. It is undoubted that there are cosmopolitan individuals with similar views to similar people in other countries, and both may be quite divergent from views held by others within their own societies.

These ideas are summarized in Box 1.1.

**Mutual dependence**

There is a new pragmatism emerging as to the relative roles of business and government; the distinctions between them should not be overdrawn. The two institutions are effectively co-dependent; they are often co-producers, even as they have important differences. Business needs government in order to thrive, indeed, the modern market system has been argued to be an artefact of government in that it is government which provides the laws that regulate markets and market behaviour. Wilson argues that the modern corporation 'is, in historical terms, a comparatively modern creation of the state' (1990, p. 4). And, further, 'no matter how much modern businessmen may presume to the contrary, the company was a political creation' (Micklethwait and Wooldridge, 2003, p. 60).
Trade and commerce might exist without government institutions, but are not likely to be optimal. Small-scale markets and small-scale trade obviously existed before governments arose and still arise as black markets in societies where there has been an attempt to ban markets altogether, in for instance, Pol Pot’s Cambodia. But markets do not thrive in such circumstances. It is through actions of government in upholding contracts through the law and establishing property rights that markets are more likely to work well.

There is now a better understanding of the role of government with respect to markets. There is also a much-diminished ideological debate over the economic role of government. Once it was easy to assume that left-wing parties would favour expanding the role of government and consequently diminish the role of business. Right-wing parties, in government, would behave in the reverse way. For example, in the UK from the 1940s, the Labour Party would attempt to nationalize the ‘commanding heights’ of the economy, and the Conservatives to denationalize when they were in government. In the 1980s, in the UK there were deeply felt ideological debates as to the line between business and government as the Thatcher government privatized many of the public enterprises. This kind of debate has greatly diminished. The Labour Party in office is no longer ‘anti-business’, the Conservatives show no real desire to push back the frontiers of the state. As in the United States, political debate in the early years of the twenty-first century

Box 1.1 Cosmopolitan and nationalist approaches to trade – key differences

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<tr>
<th>Cosmopolitan approach to trade</th>
<th>Nationalist approach to trade</th>
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<tr>
<td>Faith in global governance institutions</td>
<td>Little confidence in multilateral and international institutions</td>
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<tr>
<td>Free trade benefits the world as a whole</td>
<td>Favours economic protectionism</td>
</tr>
<tr>
<td>Rules out attempts to improve one nation’s comparative advantage</td>
<td>Trade to be managed to improve national advantage</td>
</tr>
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</table>
seems more about social or cultural issues – religion, immigration – and far less about wealth creation or distribution. The second George Bush as President, while a profound conservative, greatly increased government spending.

Much economic development has occurred in spite of any notion that government is best kept minimal. As McCraw notes (1997c, p. 523):

Leaving aside command economies, we also know that the market lies at the heart of all successes of the Japanese and Korean sort. Yet in every case of late industrialization (and in several of early, such as Germany), it has not quite been a Smithian market process. For most such countries it has been a guided market. It’s been shaped. It’s been planned. And in some places it has worked far better than the most optimistic planners in those countries would have dared to predict.

Wolf argues that deciding between government provision and market provision is the ‘cardinal policy issue facing modern economic systems’; however, the choice ‘should not be dichotomized … as a choice between relatively perfect governments … and imperfect or inadequate markets … or between relatively perfect markets and imperfect or inadequate governments’, as the actual choice is ‘among imperfect markets, imperfect governments, and various combinations of the two’ (1994, p. 7). There is no axiomatic role for government and similarly no axiomatic role for business. Rather they should be in reasonable balance, as Mintzberg (1996, p. 82) argues:

Business is not all good; government is not all bad. Each has its place in a balanced society alongside cooperative and non-owned organizations. I do not wish to buy my cars from government any more than I wish to receive my policing services from General Motors.

More important in many ways than what governments and business do is the institutional framework within which the interaction takes place.

Governments assist business by providing infrastructure such as roads and bridges. They provide education to varying levels depending on the national system. Even Adam Smith, the eighteenth-century philosopher credited with founding economics, advocated government assistance for the provision of education.
An educated workforce is capable of greater productivity than an uneducated one and some of the cost of this falls to the state. Governments provide funding for basic and applied research that often benefits business. The legal system enables the state enforcement of private contracts and rules governing labour markets. Many of these can be gathered together as consisting of the institutional environment provided by government.

Conclusion

The business–government relationship is important but can no longer be seen as referring to one government and its relationship with the businesses located within its borders. There are many issues that cross national borders; there are many companies that operate within different governmental jurisdictions.

With there being effectively only one economic theory prevailing across most of the world, it follows that governments and businesses find similar issues and approaches to those issues wherever they are located. Regulation is often cross-national and the politics of business and government is as well. Issues such as Brent Spar, where the Shell oil company was eventually persuaded not to sink an old oil-drilling platform in the ocean due to pressure from environmentalists, cannot be seen as confined to the nation-state where this took place. It became an issue affecting Shell’s reputation and political standing in many countries, so much so that Shell changed its plans and agreed to dismantle the oil rig. This event is by no means isolated; what would have once been a domestic media story can run in many countries. The actions of individual governments also have implications for other governments. However, it is arguable as to whether or not this is evidence of globalization. Increased globalism there certainly is, as well as increased interdependence, but still despite the constraints involved in getting international action, what we see are governments acting in their own jurisdictions or together with others on matters such as global warming. The interaction of business and government needs to be seen in its international context rather than as a narrow phenomenon that takes place only within nation-states.
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