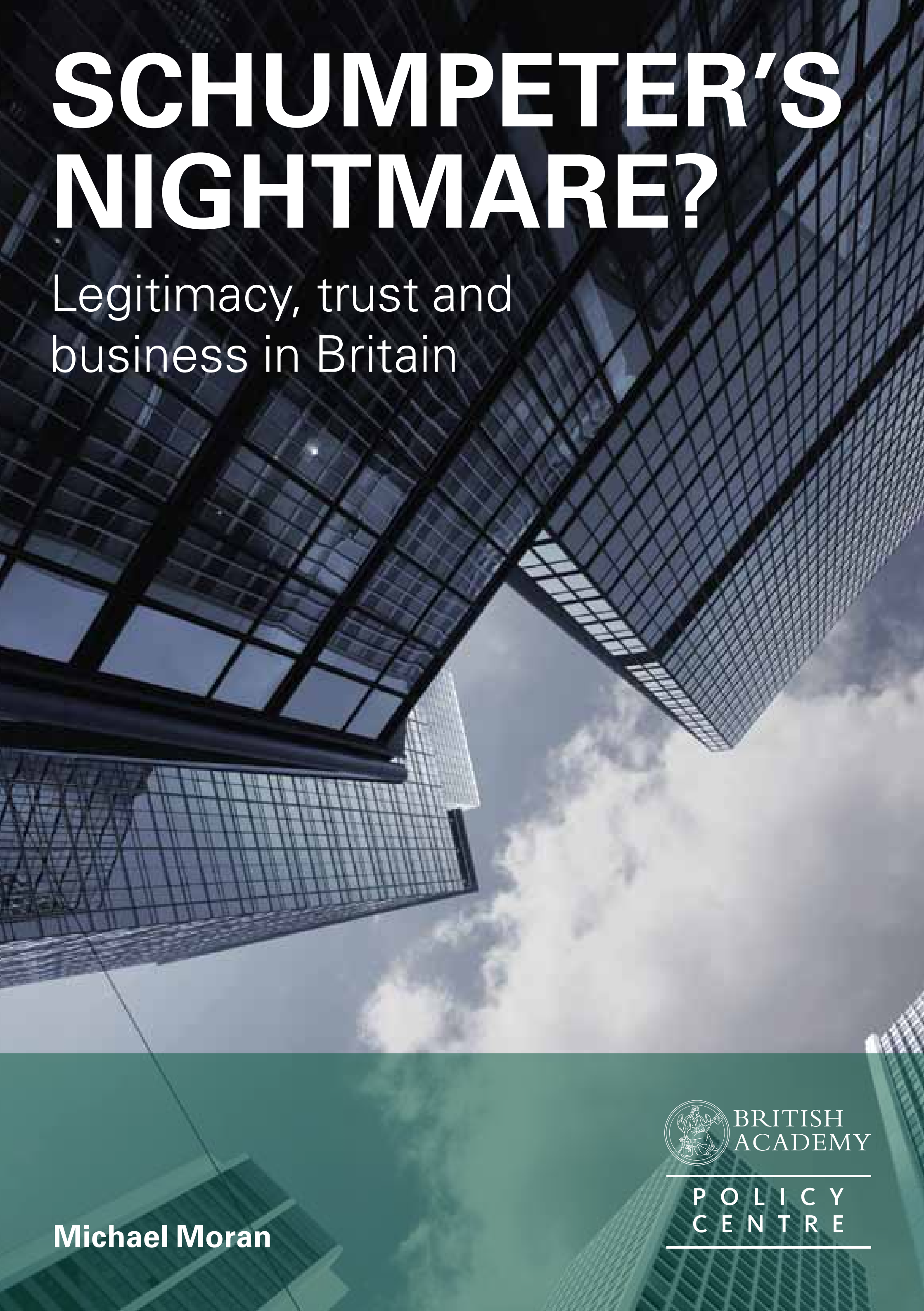

SCHUMPETER'S NIGHTMARE?

Legitimacy, trust and business in Britain

Michael Moran

BRITISH ACADEMY
POLICY CENTRE

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MJM
University of Manchester, 19 December 2012

About the author

Michael Moran is a graduate of the universities of Lancaster and of Essex. He received his PhD in Government from Essex in 1975. He taught at the University of Manchester, UK, until 2011, retiring as WJM Mackenzie Professor of Government. He was elected to the British Academy's Fellowship in 2004.

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He has written widely on the regulation of labour and financial markets, on British and EU politics, and on the comparative study of regulation and public policy.

Foreword by Gillian Tett

A decade ago, when business leaders and financial journalists heard the word "credit", they usually thought about numbers. Little wonder. Back in the credit bubble, when free market rhetoric dominated, business and finance appeared to be dominated by maths, not morals. If something was important to the economy, the assumption went, it could be plugged into a computer spreadsheet. "Soft" issues, such as trust or cohesion, tended to be ignored; "integrity" seemed old-fashioned.

No longer. In the last five years, or since the financial crisis erupted, politicians, investors and business leaders alike have received a brutal demonstration of why the word "credit" comes from the Latin credere, literally "to believe." Credit markets without credit - in the original sense - do not work. Finance without faith is worth nought. When business fails to command trust, it can be dangerously fragile. A society where the public dislikes capitalism is apt to feel volatile.

This makes the following report by Michael Moran not just timely, but also fascinating. For, as the report shows, the issue of business "integrity" has been both emotive and complex in recent years. Today in Britain, the survey data shows that the level of public trust in many key aspects of business is very low. Banks, in particular, have experienced a seemingly catastrophic decline in popularity – a pattern which is echoed not just in this research but other work too, such as the Trust Barometer compiled by the public relations firm, Edelman each year.

But these ultra low levels of faith, Moran points out, cannot be blamed just on the 2008 crisis. Longer-term survey data shows declining confidence in business even before this date.

And some micro-level trends are counter-intuitive. The British public today distrusts business in general; however, people retain respect for some individual business leaders and brands. Individual companies are adept at maintaining discipline inside their enterprise (particularly given the decline in union power); however they find it harder to retain authority in society more widely. Political support for business has been low; however, political parties increasingly rely on business leaders for funds.

Perhaps the most interesting issue of all is how the rise of social media is changing the concept of "trust". In previous generations, the public tended to look for advice and guidance on a vertical axis; they looked "up" to leaders and experts – and decided whether they trusted their statements, or not. These days, however, horizontal axes of "trust" are crucial: people increasingly look to their peer group – via social media – for advice and guidance. They heed their Facebook friends, even if they apparently dislike what company leaders say.

Can companies respond to this shift? Can they rebuild a sense of "integrity" at a time when the wisdom of cyber crowd rules? Or is faith destined to crumble further? It is currently unclear. But a debate about these issues is long overdue; and doubly so since the global economy seems unlikely to create much more credit – in the Latin sense – any time soon.

Gillian Tett
Markets and finance commentator and an assistant editor of the Financial Times

Executive summary

Business seems to be in trouble. A wealth of survey data shows that people at large say they do not trust leaders of firms, especially big firms. What do these findings mean? Must we conclude that the legitimacy of business – its ability to command some sort of moral authority – is in decline? The decay of this kind of moral authority is indeed a recurrent theme of many descriptions of the business order in the social science literature. One of the most convincing dystopian accounts was offered by the Austrian economist Joseph Schumpeter in his classic 1942 study *Capitalism, Socialism and Democracy*. In Schumpeter, the business order is pictured as the victim of a relentless process of demystification, where its pretensions to authority are ruthlessly dissected by an elite of intellectuals hostile to capitalism. If Schumpeter is right the decay of trust in business in Britain is therefore more than a product of its particular recent history, such as scandals in the banking system. These have only made manifest a latent cultural hostility to the business order – one which threatens its long-term survival.

Closer analysis of the survey data, however, reveals a more complex picture than is suggested by headline accounts of the decay of trust. Big business as an abstraction arouses widespread hostility. But some big business personalities actually evoke warm expressions of widespread liking and trust; many leading brands, which are undoubtedly the products of big business, are likewise trusted. Thus 'Schumpeter's nightmare' is not in any simple way being realised. The evidence of public opinion is rather that there is contradiction and confusion in public perceptions of business. But Schumpeter's sketch of a hostile environment only indirectly turned on the character of popular opinion. More important was the way the sceptical and rational culture of capitalist society encouraged the rise of social strata, such as strata of intellectuals, who fostered a climate of hostility to business. Here there is some evidence that Schumpeter's expectations are being realised. In the wider civil society too there is evidence of the growth of a culture of scepticism towards the business order. There are five important signs of this:

1. Growing regulation of business
2. An increasingly powerful environmental movement
3. The desertion of business by some of its historically important allies
4. The rise of groups lobbying firms
5. The development of new technologies of social mobilisation

The last of these developments was graphically illustrated by the sudden emergence in 2011, in a few short months, of a cross-national coalition grouped under the banner of the 'Occupy' movement. But the fate of Occupy also forces us to think about the larger consequences of these contextual changes in the life of business. Protests against financial plutocrats have mushroomed, in forms like Occupy; but the protests have almost as suddenly evaporated. The reason lies in something more than the content of the popular mind. It reflects features that Schumpeter did not anticipate: the ability of big business to shape public debate. The sources of manipulatory capacity are twofold: corporations have professionalised their own lobbying; and there is extensive business penetration of political parties.

But this final response also points up a problem for the British business community. The history of collective organisation by British business is largely a history of division and ineffectiveness. This contrasts markedly with, for instance, the United States, and the contrast is well illustrated by the way business in the two countries has responded to the struggle to control the intellectual assumptions that underpin the workings of the business system. In the United States the business community has since the 1970s developed a set of well-funded and powerful think tanks that pump out a stream of high quality publications supporting the business system. In the United Kingdom such think tanks are poorly funded. American businesses are prepared to contribute generously to defend collective interests; British business has proved adept at defending the interests of individual enterprises but poor at mobilising for collective purposes. That remains one of its great weaknesses in coping with any intellectual criticisms of its position and privileges.

Business has a problem in fashioning a principled defence of its practices and reward systems, but the political parties have failed to respond to the public's dissatisfaction with those practices and reward systems. In British democracy parties are meant to provide a means of expressing popular discontent. But the parties' links with civil society have withered away, they have shrunk to become groups of professional politicians and, now dependent on them for finance, they are in the pockets of business tycoons. Until the political parties are able to respond to the disgruntlement expressed by the public, the legitimacy of the business sector will continue to decay. But this decay is unlikely to take root. Instead we will see more of the angry and short-lived incoherence typified by the recent 'Occupy' protests.

1 Introduction

The British Social Attitudes survey periodically asks questions about public confidence in key business institutions. In 1983 it asked its sample of the population whether banks in Britain were well run. 90% agreed that they were: the confidence expressed was higher than for any other institution surveyed. By 2009, when a similar question was asked, the figure had dropped to 19%. In reporting these figures Curtice and Park remark that: 'This is probably the biggest change in public attitudes ever recorded by the British Social Attitudes series' (2011: 141).

The obvious way to make sense of these figures is to see them as a perfectly straightforward response to the catastrophe of the great financial crisis and to the revelations of greed and incompetence in financial markets highlighted by that catastrophe. By 2009 bankers were established as diabolic figures in popular culture. In the wake of the great financial crisis, leading bankers were skewered in public hearings of Congressional and Parliamentary committees on both sides of the Atlantic, culminating in their memorable stigmatisation as 'Scumbag Millionaires' at the hands of the headline writers of The Sun after the bankers' appearance before the Treasury Select Committee in March 2009. Following another series of scandals in 2012 (Libor, product mis-selling) we may confidently expect yet another fall in levels of public trust and confidence.

Yet there is more to these figures than a particular response to the financial crisis. The great crisis and the practices which it highlighted did damage banks and the wider business community. But the damage was being done in advance of that crisis. Even in banking, public confidence was declining before the catastrophes of 2007–8: by 1994 that 90% confidence figure in the British Social Attitudes survey had already dropped to 63%.

There is, in short, more here than the immediate effect of the financial crisis and the practices which it revealed. Things are even more serious for business than public flaying of bankers would suggest. The collapse of confidence in banking is part of a wider problem of public confidence in the moral integrity of the market order. But that wider confidence problem is taking complicated forms, and these complications help explain one of the puzzling features of public debate about business behaviour and business reward in recent years: the fact that public disenchantment with key aspects of business behaviour sits alongside public celebration of particular business institutions and particular individuals, and the fact that business seems so easily to shrug off criticism and critical movements. In this report I examine the nature of public beliefs about the moral integrity of the business order; show that these beliefs, while they certainly show disenchantment with some parts of business, are often contradictory and incoherent; and show that contradictions and lack of coherence give business the opportunity to try to reshape public opinion.

Modern concerns with the moral foundations of the business order go back at least 70 years. In 1942 the Austrian economist Joseph Schumpeter published a famously pessimistic account of capitalism's future. *Capitalism, Socialism and Democracy* appeared at a moment when the leading capitalist nations were running planned wartime economies, and were in alliance with the most obvious alternative to the market, Soviet Communism. Schumpeter's picture of the future of capitalism was bleak. Market economies would evolve into planned systems dominated by states and bureaucratic corporations. Capitalism was doomed because it rested on incompatible cultural foundations. On the one hand, its spirit of secular rationalism swept aside all rival forms of social organisation: nothing was spared from critical examination. On the other hand, it could itself only be spared from this spirit of ruthless criticism by a legacy of deference to authority inherited from the traditional social constellations which it had displaced. The spirit of rational interrogation and secular scepticism depleted this legacy of deference:

> *Capitalism creates a critical frame of mind which, after having destroyed the moral authority of so many other institutions, in the end turns against its own; the bourgeois finds to his amazement that the rationalist attitude does not stop at the credentials of kings and popes but goes on to attack private property and the whole scheme of bourgeois values. (1942/1976: 143)*

An important social sign of this was the growth of a stratum of intellectuals–Schumpeter used the word in a characteristically Middle European expansive sense–disconnected from business life, enjoying material support independent of the fortunes of business (for instance in elite universities) and engaged in unremitting critical analysis of business practices. 'One of the most important features of the later stages of capitalist civilization is the vigorous expansion of the educational apparatus and particularly of the facilities for higher education.' In this way, 'Capitalism inevitably…educates and subsidizes a vested interest in social unrest' (152/146).

It must often appear to modern business leaders that they are living Schumpeter's nightmare. The modern corporation is besieged by critics. The flaying of the bankers was only the culmination of that experience. In 2007, before the crisis began and when hubris about the workings of financial markets was still at its height, the officers of the trade association for the private equity industry – one of the few financial sectors where UK controlled firms are globally prominent – were mauled by the House of Commons Treasury Select Committee, and denounced as tax avoiding parasites. The encounter with the rough edge of democratic politics led the chair of the association to resign. But that resignation was only the latest episode in a bruising series of encounters between the corporation and democratic politics on both sides of the Atlantic. Over 30 years ago the American political scientist David Vogel was already documenting the extent to which 'lobbying the corporation' was widespread. In the intervening years the voices of critics have become yet louder. (For documentation see Moran 2009.) Examples multiply of the incompetence of business in responding to criticisms in democratic political arenas: the most recent include the ham-fisted, ludicrous performances by leading executives of firms like Amazon and Starbucks in hearings about their tax policies before the House of Commons Public Accounts Committee in November 2012.

Criticisms of business since the trauma of the great financial crisis have concentrated, rightly, on the incompetence of institutions, the greed of executives, reward systems that often look like looting and the huge inequalities that have grown up, separating parts of the corporate elite from everyone else. The crisis that began in the UK in 2007 did indeed destroy a narrative that the financial elite and its political allies had constructed during the years of what is sometimes called the 'Great Moderation': a narrative that claimed that financial markets were uniquely able to manage risk, and that the future of the UK lay in a services sector where the most dynamic parts would be financial services. But public doubt about this narrative predated the crisis, and indeed predated the rise of the new corporate plutocracy. The erosion of the cultural foundations of the business order seems to be due to something more than contemporary incompetence and greed. As Schumpeter expected, it seems to be part of some more fundamental problems.

Big business in particular has never seemed so powerful or so wealthy, but in Schumpeter's world of rational dissection never so despised. Even among the business school gurus and commentators in the business press there are some who believe there is a legitimacy crisis. The world's leading business school academic, Michael Porter, has put it as follows – he is addressing a US audience but his remarks might equally have been made in the UK: 'High unemployment, rising poverty, and the public's dismay over corporate greed continue to challenge the market system and the legitimacy of business itself' (Porter 2010; and Porter and Kramer 2011). Like any successful guru Porter has sensed the climate of the times. In business schools there is now a flurry of research and course creation addressing business legitimacy. And the legitimacy crisis has also entered mainstream business journalism: witness the jeremiad from John Plender, a Financial Times columnist (Plender 2003: 219-41).

In the pages that follow I try to assess how far Schumpeter's nightmare has been realised, and to the extent that it has, try to show the forms it has taken. I review the evidence for three sets of questions. First, is there a legitimacy crisis of the business sector, and, if so, in what form does it consist? Second, since there plainly are critics of business in civil society, where are these critics located? Does their location corroborate Schumpeter's vision of a culture with an intellectual stratum hostile to the business order? Third, since business is manifestly under pressure, how has it responded? To anticipate, I conclude as follows. In the very narrowest sense there is no legitimacy crisis of business. But there is a more incoherent pattern of public disquiet, and there is evidence that in what I call organised civil society there is scepticism about business practices and about important aspects of the market order; it is here that something close to Schumpeter's pessimistic vision is being realised. I also show, however, that business in Britain has developed powerful mechanisms to counter this scepticism. Unfortunately the parochialism of the business sector in Britain means that, while businesses are good at managing their own sectional interests, they are poor at defending the collective interests of the business order.

2 Legitimacy and the business sector

Worries about the legitimacy of the market order are as old as capitalism. They were central to debates about the morality of commercial society in eighteenth century Britain; they lie at the heart of Adam Smith's *The Theory of Moral Sentiments* and his denunciation of the 'negligence and profusion' of joint stock companies in The Wealth of Nations (1776/1976: 741). The worries prompted by the new age of the plutocrats, and the manias of speculation that culminated in the great financial crisis, thus tap historically deep rooted fears about the moral foundations of the business system.

Invoking the spectre of a legitimacy crisis invests the claim with great rhetorical power. But in doing so it misreads the most important part of the intellectual history of the idea of legitimacy. The relevant notion of legitimacy derives from Weber's famous threefold classification of the foundations of authority: traditional, charismatic and rational-legal. In other words, legitimacy is primarily a feature of hierarchical authority systems. Certainly some features of the internal life of the modern business – especially of the large corporation – do correspond to an authority hierarchy, and indeed often closely correspond to the third of Weber's ideal types: the form associated with rational-legality, bureaucratic authority. But there is very little evidence – and little in the prescriptive literature to suggest – that the business sector is suffering a crisis of this kind of rational-legal authority. It is true that the chaotic reality of corporate life commonly subverts bureaucratic chains of command and creates a very different cultural world from that of the Weberian picture – something that is commonly revealed in tales of corporate life following business collapses or the downfall of some egomaniac CEO. It is also true that the history of industrial relations – especially in the most 'Fordised' businesses such as automobiles – often shows the collapse of authority, exemplified in everything from shirking, to wildcat strikes, to sabotage (Beynon on Ford, 1973, for the classic study). Underneath an authority facade legitimised on procedural grounds, anarchy is induced by the lack of any convincing defence of the unequal allocation of material resources, either within the sector itself or in the wider economic system. These inequalities are commonly appealed to, for instance in justifying industrial action, and that they have widened in recent decades is well documented. But the claim that widening inequalities have created, or deepened, a crisis of legitimate authority within the business sector is unconvincing. On the contrary: the age of the corporate plutocracy has also seen a new age of industrial discipline, and a decline in the most obvious indicators of challenges to that authority, such as strikes, official or unofficial. Authority inside the sector in the UK has rarely been so strong.

Beyond the authority hierarchy of the firm, the language of legitimacy loses even more meaning. The relations that firms have with their external environment – with competitors, with suppliers, with customers–take numerous forms in different sectors, national business cultures and markets. They can vary from the most instrumental to the most affective; the cult of brand management, which I discuss below, exemplifies the latter. The one form they do not take is a relation of authority. If there is a legitimacy crisis of the business sector, therefore, it cannot be a crisis of what might be termed, in shorthand, 'Weberian legitimacy'.

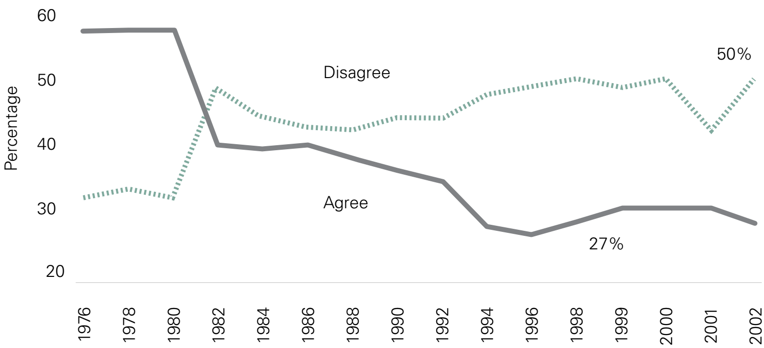
But that does not dispose of the matter; indeed all it does is show that the dominant, and quite narrow, sociological usage of the term legitimacy will not help much in making sense of what is going on. Most people, when they worry about the legitimacy of business, are thinking of something more morally diffuse. The work of Habermas, the most influential analyst of legitimacy after Weber, evokes precisely this wider moral sense. Habermas' most direct statement of his thesis, that there is indeed a legitimation crisis (not just of business), is expressed as a rejection of the Weberian notion of legitimacy as an attitudinal phenomenon: 'If belief in legitimacy is conceived as an empirical phenomenon without an immanent relation to truth, the grounds upon which it is explicitly based have only psychological significance' (1976: 97). It seems to be this sense of legitimacy which is being invoked in many contemporary claims that there is a moral deficit at the heart of the business sector. The most convincing apparent behavioural evidence for the growth of this moral deficit lies in runs of data about public attitudes to business. The collapse of confidence in the competence of banks revealed by the British Social Attitudes data cited earlier fits a wider picture: we can chart polling trends which suggest that there has indeed been a Habermas-like withdrawal of moral support for the business sector. The data tap an apparent lack of confidence in the public-spiritedness, the truthfulness and the competence of business elites. If this evidence is convincing it would not amount to a crisis of Weberian legitimacy, but it would amount to a serious problem for the moral foundations of business institutions. But even the crude summary just offered – trust in public-spiritedness, truthfulness or competence – shows that the notion of trust needs scrutiny.

3 O'Neill's echo: trust, truth and competence

We can begin with some survey evidence of a kind which is often referred to in arguments about trust in, and approval of, business. It is summarised in Exhibits 1 and 2.

Exhibit 1: Popular approval of business over time

Responses to statement: 'The profits of large companies help make things better for everyone who uses their goods or services.'



Base: Adults 15+ across Britain.

Source: Reprinted from Moran 2006: 459, and based on Lewis 2003: 3.

Exhibit 2: Trust in the truthfulness of business

Responses to question: 'Now I will read out a list of different types of people. For each, would you tell me whether you generally trust them to tell the truth or not?'

	Doc	Tea	Prf	Jud	Cle	Sci	TV	Plc	Ord	Pls	Civ	TU	Bus	Gov	Jou	Plt
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Tell the truth																
1983	82	79	n/a	77	85	n/a	63	61	57	n/a	25	18	25	16	19	18
1993	84	84	70	68	80	n/a	72	63	64	52	37	32	32	11	10	14
1997	86	83	70	72	71	63	74	61	56	55	36	27	29	12	15	15
1999	91	89	79	77	80	63	74	61	60	49	47	39	28	23	15	23
2000	87	85	76	77	78	63	73	60	52	46	47	38	28	21	15	20
2001	89	86	78	78	78	65	75	63	52	46	43	39	27	20	18	17
2002	91	85	77	77	80	64	71	59	54	47	45	37	25	20	13	19
2003	91	87	74	72	71	65	66	64	53	46	46	33	28	20	18	18
2004	92	89	80	75	75	69	70	63	55	49	51	39	30	23	20	22
2005	91	88	77	76	73	70	63	58	56	50	44	37	24	20	16	20
2006	92	88	80	75	75	72	66	61	56	51	48	41	31	22	19	20
2007	90	86	78	78	73	65	61	59	52	45	44	38	26	22	18	18
2008	92	87	79	78	74	72	66	65	60	48	48	45	30	24	19	21
2009	92	88	80	80	71	70	63	60	54	45	44	38	25	16	22	13

Source: Ipsos MORI, 2009

Key:

Doc: Doctors

Tea: Teachers

Prf: Professors

Jud: Judges

Cle: Clergyman / priests

Sci: Scientists

TV: Television news readers

Plc: Police

Ord: The ordinary man/woman in the street

Pls: Pollsters

Civ: Civil servants

TU: Trade Union officials

Bus: Business Leaders

Gov: Government Ministers

Jou: Journalists

Plt: Politicians generally

This is the kind of evidence which, for all the shortcomings that I presently discuss, lies at the heart of worries about the moral foundations of the business sector. It allows us to explore two questions. First, what has happened to popular attitudes to the sector over time? That is important because the notion of a crisis in the moral foundations of business embodies a historical claim that this is new. If business has always been unpopular, that hardly matters much since it has managed to live with unpopularity. Second, how is business viewed compared with other groups? Exhibit 2 allows us to begin thinking about this. It is important because if business is subject to moral disapproval, we would want to know whether it is unique in this respect.

To get some sense of how public opinion changes we should obviously apply the same survey instrument – or, in simple English, ask the same question (though even the same question may acquire different meanings over time). The proposition explored in Exhibit 1 is some kind of proxy for a belief that there is congruence between the activities of big business and wider public interest. It asks respondents to assent or otherwise to the proposition: 'The profits of large companies help make things better for everyone who uses their goods or services.' It is plainly not a perfect proxy, but it happens to be the only proposition we have which has been put to a national survey of respondents over a long period. Even then it has some important limits, the most obvious of which is that Ipsos MORI stopped asking this question in 2002. The pattern over time is nevertheless striking. Two features stand out: the sharp drop in 'agree' responses in the first couple of years of the 1980s, and the steady decline after that. What makes this decline particularly striking is that it matches data for trends beyond the UK: Vogel, for instance, had by the 1980s charted a long term fall, from a historic high in the 1950s, in approval of the corporation in the United States (Vogel 1989: 7-8). And what makes these patterns doubly striking is that they are independent of the effects of the crisis of recent years. Confidence in business institutions began draining away long before the advent of the great financial crisis, and indeed before the accelerated enrichment of the corporate elite. That supports the view that there is something fundamentally amiss about the legitimacy of the business order.

The feeling that business is in trouble is reinforced by the evidence of Exhibit 2. The survey question here is designed to tap moral approval or disapproval, and may therefore be thought to bear closely on that wider sense of legitimacy which I identified above: one connected to trust. It tries to discover how much confidence the population has in the willingness of a range of groups, including business leaders, to tell the truth. It gives us a run of nearly three decades, and indicates, as far as business is concerned, two striking features: business people are apparently near the bottom of the 'truth trust' ladder, and they have been near the bottom for a long time. (Contrast this with the climb up the ladder, for instance, by trade unionists.) Notice, though, how stable is the pattern for business: there was little public confidence in the truth telling quality of business leaders in 2009, when public uproar about the behaviour of some business elites was at its height, but the figure in that year was precisely the same as in 1983.

Interrogating these findings allows us to start answering the question: what do survey data tell us about the perceived legitimacy of the business system? The question can be examined in two ways: what do the existing data sets allow us to conclude about attitudes, and what is actually being revealed when respondents give answers to pollsters?

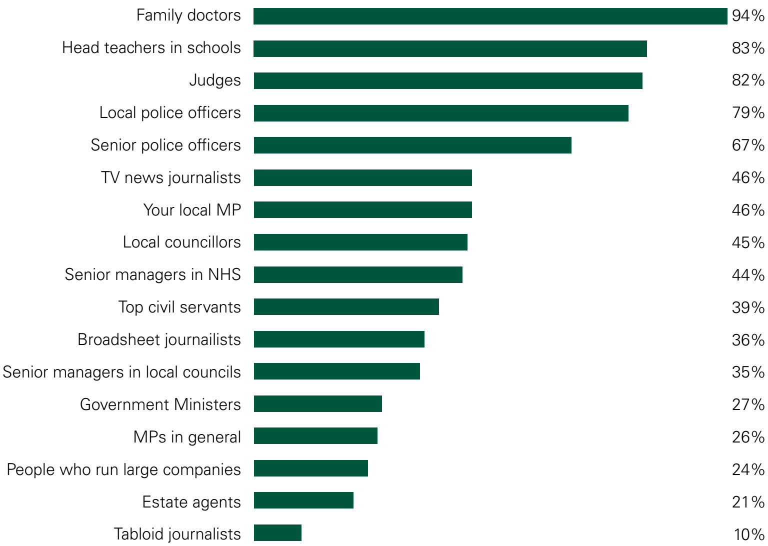
There are obvious difficulties in using mass surveys to explore attitudes of complexity such as notions of trust. They have to do with the attention span of respondents; with their willingness to think on the spot about complex matters; and with the sensitivity of responses to superficially minor technical matters like the ordering of questions in an interview schedule. We know that, even in the most professionally conducted polling exercise, small variations in practice can produce large variations in response. For instance, an Ipsos MORI poll cited by the Audit Commission intentionally placed a question about trust in large companies after a series of questions about corporate social responsibility (thus accentuating the positive): the result was to double the proportion of respondents who said they trusted large companies (Audit Commission/Ipsos MORI 2004: 30).

An equally striking instance of the sensitivity of responses to the details of question design is illustrated by Exhibits 3 and 4. These reproduce 'truth trust' questions from surveys commissioned by the Committee on Standards in Public Life.[1] The findings summarised in Exhibit 3 are particularly striking: they are the product of polls by an organisation other than Ipsos MORI, ask a slightly different question, but still show business near the bottom of the 'truth trust' ladder. 'People who run large companies' are among the least trusted to tell the truth, and professional groups distant from business life (doctors, head teachers) are among the most trusted.

1 The committee replicated the survey in 2010, but unfortunately, judging the responses to the 'business' question to be unrevealing, removed it from the list. (Committee on Standards in Public Life 2011: 16)

Exhibit 3: Trust in professions to tell the truth, 2008

Respondents were asked, for 17 professional groups, which they 'trusted to tell the truth'. Percentages refer to per cent of respondents who expressed trust in truthfulness of each group.

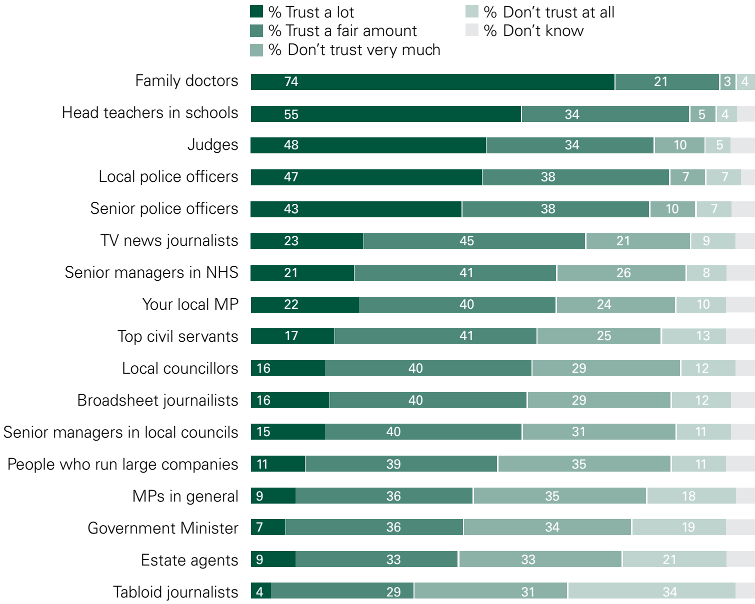


Base All GB respondents – 50% sam

Source: Committee on Standards in Public Life 2008: 22.

Exhibit 4: Levels of trust in 17 professional groups

Respondents were invited to select from a four point scale: 'trust a lot'; 'trust a fair amount'; 'don't trust very much'; 'don't trust at all.'



Base: As Exhibit 3.

Source: Committee on Standards in Public Life 2008: 23.

Exhibit 4 shows what happens when quite a small variation is introduced, to create a scale of trust: respondents are allowed to distinguish between trusting a lot, a fair amount, and so on, to create a four point scale. The position of business in the trust hierarchy does not shift, but the expressed level of trust looks more impressive (as it does for all groups): 40% of respondents now trust people who run large companies 'a lot' or 'a fair amount'. Moreover, the proportion expressing what one might call outright distrust ('don't trust at all') is absolutely low (just over a tenth for business) and not greatly out of line with distrust in most groups except, again, for the really high trust occupations like doctors and head teachers.

The data show us that in the population at large there are consistently different, and in many ways puzzling, affective responses to occupational groups. The contrast between the treatment of doctors and business is particularly striking. The two have similar regulatory histories: both established themselves as powerful interests with distinct regulatory ideologies before the rise of democratic politics and the modern interventionist state; both have a history of scandals due to the clash between anachronistic regulatory systems and modern democratic cultures; both have a modern history of regulatory turmoil in the effort to cope with these scandals (for the details on doctors see Moran 1999). But the affective hold of doctors over the popular mind just does not seem to have been damaged by scandal and regulatory failure. A striking contemporary illustration is provided by the timing of the data series examined above. It coincides with the revelations of the dreadful Shipman affair, a set of tragedies that had roots in a failing medical regulatory system. Yet the revelations seem to have done nothing to diminish public trust in doctors. It was plainly perceived by the public as only a single horrible aberration. But in truth it was a symptom of a state of affairs common in business regulation: the lack of fit between a regulatory system fashioned in the non-democratic past and the pressures of a more open, contemporary democratic order.

Part of the clue to this puzzling divergence may lie in the identities of business in the public mind. There is evidence from both sides of the Atlantic, for example, that when populations are asked to make judgements based on a conventionally labelled division between 'big' and 'small' business, the latter consistently emerges with higher approval ratings (some details are in Moran 2009: 95). The Audit Commission/ Ipsos MORI study of trust also shows that, beyond this conventional division, much can depend on how the institution called 'business' is identified. The Commission reports a general question about trust (the problem of varieties of trust I examine below). When respondents are asked about trust in the entity called 'big companies', 65% express distrust; when asked the same question about the apparently trivially different category 'large companies', the figure falls to 21%; and when asked about trust in three (unidentified) leading high street brands, distrust falls to a really low level – 6%, 10% and 7% express distrust (Audit Commission/Ipsos MORI 2004: 30). These figures show the strange mixture of the inscrutably perverse and the perfectly rational in public attitudes to business. The dramatically higher distrust levels for 'big companies' can only be because the category calls to mind the bogey of 'big business'. By contrast, the faith in well known brands (which are virtually by definition marketed by big business) is well founded. We are more likely to be 'sold a lemon' if we buy a second-hand car from a solo dealer than if we buy from a chain affiliated to one of the big manufacturers with their accompanying warranty schemes; we are more likely to contract food poisoning from the local takeaway than from Pizza Express; and we are more likely to be able to return a defective product (or even one we have just changed our mind about) bought from one of the large retail chains than from a stand-alone small retailer.

The complex connection between business identity and trust is also shown by what happens when business is incarnated in people, and not just in brands. We know from the wider trust findings that giving a face to a group or institution can affect how people express trust. Thus, the data on trust in parliamentarians show that people are consistently more likely to express trust in their own MP than in MPs as a group: look at the evidence in Exhibits 3 and 4. Putting a face or some more precise identity to something changes expressed attitudes. That is important in an age of the celebrity business figure, a public persona created by PR or by engines of celebrity, such as TV reality shows. Thus a YouGov 2009 poll which examined perceptions of which personalities were most trusted to 'keep their word' put the Queen top (53% trusted her). But Sir Richard Branson, who heads a large corporation and therefore undoubtedly deserves to be categorised as a figure from big business, was not far behind (47%). The significance of TV-created celebrity is illustrated by the position of Lord (Alan) Sugar as the second most trusted business personality in Britain. Lord Sugar is a relatively unimportant entrepreneur, but as the host of a successful TV reality show he personifies business for a large part of the population (isn 2009).

Poll data like these are revealing because they show us how slippery is the notion of trust, how susceptible it is to PR manipulation – and therefore how difficult it can be to convert into some more sustained criticism of the business order. Far more people trust the Queen to keep her word than trust her daughter to keep hers (Princess Anne, 27%). But nobody outside royal circles knows from any kind of experience whether the Princess is indeed less trustworthy than the Queen; the polls are picking up a more diffuse sense of approval and disapproval of these publicly constructed personalities. It is also highly unlikely that Branson's score (47%) compared with Michael O'Leary's score (2%) is because of real differences in the behaviour of these figures. The difference represents, rather, different perceptions of the public personas which they have created, and the different brand management strategies which both have pursued. (I return to the matter of brand management later.) Likewise, most people say that they trust professors to tell the truth (see Exhibit 2). But hardly any of these respondents can be basing their confident judgement on actually dealing with that group; most people have never even met a professor, let alone had dealings with one. What we are picking up, as we pick up in the different public estimations of Branson and O'Leary, is some generalised, conventional content in public attitudes to groups and personalities.

In scrutinising the gaps and inconsistencies in the public's conception of trust I do not mean to suggest that business has no serious legitimacy problem. On the contrary, the evidence suggests a long term waning of support, consistent with Schumpeter's expectations and not attributable only to the disasters of recent years. But the fact that so much of what is expressed in the name of 'trust' to pollsters seems to be a compound of more diffuse conventional judgements about parts of business, a response to particular brands, and even a response to particular constructed public personalities, gives us a clue to a puzzling feature of present circumstances: the failure of widespread hostility to convert into significant political action.

That may also lie behind a second difficulty with making sense of the public's expressed trust in business, one I flagged above: the problem of the connection between expressed attitudes and behaviour. The link is important for any discussion of the moral foundations of the business order, because, even if we were convinced that the public at large was distrustful, this would only acquire significance if it converted into something more significant than grumbling to pollsters: something like a refusal to deal with business institutions. In the UK case this has been expressed as follows by O'Neill, in her Reith lectures examining the problem of interpreting trust in institutions generally:

> *I think there isn't even very good evidence that we trust less. There* is *good evidence that we* say *we trust less: we tell the pollsters, they tell the media, and the news that we say we do not trust is then put into circulation. But saying repeatedly that we don't trust no more shows that we trust less, than an echo shows the truth of the echoed words; still less does it show that others are less trustworthy. (O'Neill 2002: 44)*

Is there, then, a gap between the 'echo' and what we can infer about trust from behaviour? O'Neill argues that there is. She asks the question, and then answers it: 'Could our actions provide better evidence than our words and show that we do indeed trust less than we used to? Curiously I think that our action often provides evidence that we still trust' (21). The examples she provides concern professionals (for instance expressions of distrust in doctors do not deter us from seeking medical treatment). But the same is true of big business. At the same time as we are telling pollsters that we distrust big business to tell the truth or to serve the public interest, we make repeat purchases from giant firms, evidently trusting that they will not poison us, endanger our lives with faulty products or cheat us over price.

It is, as ever, important not to infer attitudes from behaviour. We deal with institutions for many reasons, one being that in many instances the only choice we have is Hobson's Choice. Thus a survey of popular attitudes to Tesco showed that many shopped there reluctantly, simply because the firm had used its muscle to site itself at the most convenient locations and used its buying power to offer goods attractive in range and price (Glover 2006).

This kind of nagging resentment and dissatisfaction with particular brands is, however, hard to convert into a wider sense of the illegitimacy of the business order. Vogel's examination of the evidence (mostly, but not exclusively, American) for the existence of a 'market for virtue' suggests that, while there is indeed a market for virtue, it is mostly a niche market. In other words, faced with the choice between dealing as investors and consumers with corporate capitalism, or dealing with businesses that make decisions according to criteria like ethical employment practices, fair trade pricing or environmental sensitivity, most people most of the time freely choose corporate capitalism (Vogel 2006: 14 and 76 summarise the argument). Vogel's evidence supports the view that repeat dealings with big business by consumers and investors are not the result of some coercive power deriving from economic muscle; despite the dislike of some brands, they truly tell us what O'Neill suggests they should tell us – that whatever is said to pollsters, there is widespread willingness to deal with business based on more than the feeling that there exists no alternative.

The upshot of this examination of public attitudes to business is as follows. Business does indeed have legitimacy problems. Moreover, while those problems have been worsened by the events of recent years–by the financial crisis, and by the often scandalous practices which have been revealed as a result – they are not solely the product of crisis. There is a draining away of popular approval. But popular disapproval is typically incoherent, and is capable of being manipulated by the machinery of public relations – something I examine in more detail below. This incoherence helps explain why widespread popular disillusionment with particular sectors, like banking, and widespread anger about executive rewards, like bonuses, seems not to convert into some more systematic critical political action. But Schumpeter offers us another reason for the incoherence of popular anger. His expectation was that sustained hostility to the business order would come not from populations at large, but from elites.

4 Nozick's wordsmiths: civil society and the business order

Schumpeter's dark vision is also expressed by some modern friends of business. Here is Robert Nozick, the most distinguished libertarian philosopher of his generation, on the problem of the hostility of the intelligentsia to capitalism. 'Wordsmith intellectuals', as he calls those who 'in their vocation, deal with ideas as expressed in words, shaping the word flow others receive', are a particular problem:

> *The opposition of wordsmith intellectuals to capitalism is a fact of social significance. They shape our ideas and images of society; they state the policy alternatives bureaucracies consider. From treatises to slogans, they give us the sentences to express ourselves. Their opposition matters, especially in a society that depends increasingly upon the explicit formulation and dissemination of information. (Nozick 1998)*

As the passage suggests, Nozick is using 'intellectual' in a similarly expansive sense to that employed by Schumpeter, to encompass a range of opinion formers who live beyond the conventional modern habitat of the intellectual – the elite university – in institutions like the mass media, think tanks and lobby groups. It was precisely this sense of being surrounded by a hostile intellectual climate which lay behind the foundation (or in the American case the revival) of many pro-business think tanks–something to which I return.

Nozick could certainly speak from experience. He spent his career in an elite private university, and this elite sector in the US has in the last generation produced sustained critiques of the business order. The single most influential account of business and democracy published in the last generation by a US political scientist is Lindblom's *Politics* *and Markets* (1977), the core argument of which is that business is a uniquely privileged interest whose power stands in the way of democratic government. The book was written in the privileged enclave of Yale University, the institution that also educated the Bush presidents. 25 years later Lindblom returned to the same arguments in a shorter book published by the prestigious imprint of the publishing house of his own university (Lindblom, 2002). Lindblom's Yale colleague, Robert Dahl, late in his career disavowed his earlier support for the view that there was a balanced plurality of interests in American society in favour of a sustained critique of corporate power, notably on the grounds that there was a democratic deficit within the workplace (Dahl 1986). Lindblom's spiritual successor at Yale has incorporated a later anti-business ideology–deep environmentalism – into an argument that the activities of corporations are incompatible, not simply with democratic politics, but with the survival of a sustainable planet (Speth 2008). Still, these singular examples do not take the argument very far. For every critic protected by the tenure system and resources of an elite university, we can cite counter examples: the Chicago School; the wider links between corporations and universities; and the cultural shifts that have seen business models penetrate the functioning of entire higher education systems.

We can assemble a more systematic account of the pressures on the business sector by recalling the expansive use of 'intellectual' that characterises pessimistic accounts of the fate of the business order: 'wordsmiths' in Nozick's coinage. Liberal cultures such as those of the United Kingdom and the United States are marked by a constant public interchange of ideas, arguments and evidence. That exchange is conducted from the most specialised scholarly level (involving intellectuals in the restricted sense of the word) to the most abusive everyday polemic on radio phone-ins and in the red top press. For this world, and its organised forms, we conventionally have the term 'civil society'. For all its imprecision it does point us to an important part of the environment of the sector. And it is in the changing environment of civil society – a domain where Nozick's 'wordsmiths' are particularly active – that we find some evidence that Schumpeter's nightmare is being realised. Viewed over the span of a generation, the changes in the critical and constraining pressures on the business sector are striking.

These critical pressures come from five sources:

1. the transformed regulatory environment;

2. the desertion of traditional historical allies in civil society;
3. the changing shape and priorities of the world of NGOs;
4. the rise of lobbying groups, both inside and outside the business sector; and
5. the impact of the new social media on the ability of corporate critics to mobilise.

4.1 The transformed regulatory environment

The change in the regulatory setting of the business sector is not unique to the United Kingdom, but it has had unique effects in the UK. Businesses in the US have long had to live with external regulation, and moreover with regulation administered in an adversarial way. By contrast, the business sector in the UK historically was a kind of little kingdom, a 'private association which should have the minimum of government regulation and interference' (Gamble and Kelly 2001: 111; and Bowden 2000). Powerful business institutions developed, first in the City of London and later in manufacturing during the Industrial Revolution. These centres of business power were established before the rise of either a democratic or an interventionist state. Regulatory ideologies and practices became entrenched before the age of democracy, and outlived its rise. These ideologies and practices privileged the sector's own internal control of its affairs. In the case of the City this was elaborated for most of the twentieth century as a self-conscious ideology of 'self-regulation' that pictured actors in the markets as uniquely qualified to rule their own affairs. But the freedom from external regulation was more general: financial reporting requirements were light; the regulation of the workplace – of safety, of environmental practices–was administered according to a philosophy of cooperative regulation; and on numerous practices – insider dealing, how business could use its contacts to secure public contracts, its capacity to bribe abroad to secure business, how it hired and fired – law and policy were largely silent (documentation in Moran 2007).

The sketch just offered describes a lost world. In the last generation the transformation in the regulatory environment of the sector has gone a long way to realising Schumpeter's vision of the future of big business–as a set of institutions burdened with a range of public duties. For someone who began in business in, say, the 1960s, the range of new external rules is remarkable: health and safety regulation of increasingly wide scope and detail; the growing legal control of the conditions under which employees can be hired and dismissed; the increasingly detailed and juridified control of production and emission practices in the name of environmental regulation; the elaboration of accounting and other financial reporting requirements; the rise of regulations governing public procurement; the rise of consumer protection controls; and the increasing subjection of corporate actors to a new world of ethical business, in which practices like insider dealing and bribing potential customers are prohibited. Even in sectors where deregulation has taken place the rules dismantled have typically been those administered by market cartels. Thus the famous 'big bang' on the Stock Exchange in 1986 involved dismantling controls administered by the Exchange, not the state, and they were accompanied by the creation of a whole new statutory framework to govern the markets.

This transformed regulatory world has had complex competitive consequences. Like most regulation it has often prompted circumvention and plain evasion. And like most regulation it has imposed burdens and costs on some, while opening up competitive possibilities for others. But the overall effect has been to transform the sector: the independent little kingdom has been changed into something like a Schumpeterian public institution endowed with a range of public functions.

From where has this transformation come? In part from the other developments in civil society itemised above.

4.2 The desertion of traditional historical allies in civil society

While there has been a decline in the strength of some historically entrenched critics of business – a point to which I return below – a variety of groups that were once either indifferent to issues to do with the firm, or actively sympathetic to business, have become critics. Some parts of the environmental movement – deep greens – are a source of anti-business hostility. In the United States even some traditional 'establishment' environmental groups – such as the Sierra Club – have become lobbyists of corporations. In the UK the last generation has seen a growth in the resources of 'establishment' groups, like the National Trust and the Royal Society for the Protection of Birds, principally on foot of a huge rise in membership. And while neither of these has moved to a position where it is an active critic of business, both have indirectly contributed to the hemming in of the sector, notably by their support for environmental regulation.

The rise of environmentalism has thus turned even some traditional establishment groups into lobbyists of the business sector. A parallel change involves the churches, notably the leading Christian denominations. The remnants of the Church of England's traditional image as 'the Conservative Party at prayer' were finally destroyed by the landmark 'Faith in the City' report of 1985. The change is matched by developments in the social ideology of the established Christian churches in the United States, notably in Episcopalianism and Catholicism. That has turned some of the very rich denominations who are large stockholders in corporations into lobbyists for ethical investment and for changes in the supply chains of corporations. In a manner entirely predictable from the behaviour of rich American denominations, Anglicanism has also become a lobbyist of corporations in the name of ethical investment (Mason 2011).

Perhaps even more striking is change in the social ideology of Catholicism. During the long pontificate of John Paul II the Catholic Church shifted globally from being an ally of political reaction and corporate interests to a persistent critic of business values, of the very idea of material success, and of the effects of globalisation. Rhetorically, the Centesimus Annus (1991) of John Paul II is worlds away from the careful navigation between socialism and capitalism of Leo XIII's Rerum Novarum (1891). Moreover, it has not suffered the anti-modernist backlash that, under Pius X, undid much of the socially progressive content of Rerum Novarum (see Duncan 1991: 68-86; 92-109). By the time the great financial crisis broke even the Vatican bureaucracy was fumbling with radical language. The crisis was due to:

> *First and foremost, an economic liberalism that spurns rules and controls. Economic liberalism is a theoretical system of thought, a form of 'economic apriorism' that purports to derive laws for how markets function from theory, these being laws of capitalistic development, while exaggerating certain aspects of markets. (Pontifical Council for Justice and Peace 2011)*

In short, business faces increasingly assertive and sceptical Christian denominations. Of course these are declining institutions, but they nevertheless remain significant social forces. Even in decline, regular attendance at services remains high compared with other forms of social commitment. The Tearfund survey – the most systematic attempt to assess Christian practice – showed that 4.9 million people in 2006 claimed weekly church attendance (Tearfund 2007: 13). Measuring church attendance is tricky, but the orders of magnitude are so great as to override any possible error in making comparisons with political activism. Membership of increasingly radical Christian denominations far exceeds even the paper membership of the largest business friendly political party (the Conservative Party has about 200,000 members) let alone the numbers prepared to turn up regularly to meetings organised by the Party. (Below, I consider further the implications of declining party membership for business.) Moreover, these denominations are significant social forces in ways that are not measured by membership. The cultural authority of church leaders remains strong, and their pronouncements on the economy attract a lot of attention. In the case of the established church, leaders occupy a moral high ground which it is hard for business to challenge. They are also considerable concentrations of economic and institutional power, through their investments and through their influence over social arenas like schools. The Christian denominations have also in the last generation created significant foreign aid agencies. Christian Aid, founded in 1957, is the agency for over 40 separate Christian groups; Cafod, dating from 1961, is the official aid agency of the Catholic Church. The ideological journey travelled by these Christian aid NGOs exemplifies the transformation of much of official Christianity into a movement sceptical about the business order. Christian Aid at origin was concerned with traditional ameliorative charity. From the 1980s it acquired an increasingly radical edge, taking its inspiration from liberation theology. Cafod's ideological transformation is even more remarkable given Catholicism's history of hostility to social radicalism. Beginning in 1961 with an entirely traditional charitable act of donation to a single Caribbean island, it has developed into a global aid NGO with an income of over £55 million in 2010/11. In the process its operational philosophy has mutated from one of traditional acts of charity to a full scale critique of the global market order–putting into specific terms the general anti-globalisation rhetoric of the contemporary papacy. In the process it has also joined a variety of domestic alliances pressuring businesses in the UK over their sourcing, marketing and employment policies (for a flavour of the outlook of the NGOs see Christian Aid 2011:18-20 and 35-7 and Cafod 2011: 1-3 and 6).

4.3 The changing shape and priorities of the world of NGOs

The development of Christian NGOs into critics of the business order in recent decades is part of a wider change in the character of the NGO world, notably of aid focused NGOs. The ideological journey made by

Christian Aid and Cafod has not been made alone; NGOs like Oxfam have both radicalised their messages beyond the conventional language of charity, and have widened the range of campaigns in which they engage. This has pulled Oxfam, for instance, into conflict with individual businesses and sectors: with Starbucks over fair trade marking of coffee brands and with the financial sector over Oxfam's support for a financial transactions tax (Oxfam 2011).

Thus, if we examine the experience of business over recent decades in the UK we can see two areas where it has acquired critics: in the formerly complaisant traditional Christian denominations, and in the world of NGOs. The activities of the latter link to a third change in civil society.

4.4 The rise of lobbying groups, both inside and outside the business sector

The corporation, as David Vogel put it some years ago in a study of US business, is increasingly lobbied and surrounded by activist groups that try to shape its practices (Vogel 1978). These lobbying groups range widely in their aims and tactics. Some, such as shareholder activist groups, are no more than pressure groups designed to reinforce the kinds of practices that came to dominate corporate life from the 1990s – notably the maximisation of shareholder value. But some shareholder activist groups – such as those associated with religious denominations–have turned to ethical issues in corporate management, again in the manner of US campaigners: issues to do with the environmental impact of sourcing practices, the employment policies of corporations and even the fine detail of management practices, such as executive remuneration. What Vogel noted for the United States in The Market for Virtue is equally true for the UK: this kind of concern with ethical investment and fair employment is a minority taste. But it is a minority view voiced by groups, many of whom simply did not exist a few decades ago, or who, if they did exist, were indifferent to corporate practices.

4.5 The impact of new social media on the ability of corporate critics to mobilise

Lobbying corporations shades into a larger domain: a cacophony of criticism which has grown in recent years, facilitated by the communication and mobilisation opportunities created by changes in communication technology and, more recently, the growth of new social media. The range of these groups is dizzying. They include varieties of environmentalism, animal activist groups pressuring corporations–sometimes violently–that engage in research on animals, more or less spontaneous movements critical of globalisation that have mounted often violent attacks on particular businesses and, most recently, groups that have opened up new fronts, such as attacks on the tax management practices of corporations.

Are we then witnessing the realisation of Schumpeter's nightmare: the spread of a culture hostile to the business sector among the most socially and politically engaged parts of the population – the intelligentsia, broadly conceived? It must occasionally seem so in the everyday life of the besieged corporate manager. Yet we also know from our earlier examination of the state of popular opinion that, whatever critics the business sector faces, it has shown a remarkable resilience in the face of these critics. In part the rise of hostile groups in civil society is only filling a gap left by the decline of earlier critics. Two important groups who have been greatly weakened in recent decades are trade unionists and socialists. Trade union membership and activism, especially in the private sector, never recovered from the combined effects of the legal reforms of the Thatcher Governments of the 1980s and the manufacturing recession of that decade. Radical socialism splintered into even more factional warring groups after the dissolution of the Communist Party. The intelligentsia that once clustered around radical socialism is now thoroughly fragmented. And from the mid-1990s the Labour Party–which had been an occasional critic of business – reinvented itself as New Labour, a business friendly party. The decline of Labour as a mass party has had particularly important implications for radical activism in civil society. At its height in the 1950s Labour had over one million individual members (as distinct from the fictional membership created by the financial mechanism of affiliation). It was the natural channel of almost all activists with radical inclinations; most of the remaining minority were channelled into the well disciplined Communist Party. Now, Labour has about 170,000 mostly elderly members. The consequences can be seen in the picture of the new modes of participation documented in the work of Pattie and his colleagues: this is an individualised world of often semi-spontaneous protests spread by social networking, and of such things as consumer boycotts (Pattie et al. 2004). In other words, it is precisely the hostile environment which business now faces.

It is debatable whether this new world is a greater threat to business than was the old world of organised trade unionism and socialism. But it is, for the corporation, more puzzling than that represented by the old hierarchies of unions, the mass Labour Party and even the Communist Party (a hierarchy where, incidentally, the voices of women – highly visible in the new groups in civil society–were mostly silent). Business has had to adapt to this more puzzling world.

5. Business fights back

My argument thus far is that business does face a sceptical civil society but that popular opposition, though real, is fragmented and incoherent. Fragmentation and incoherence are partly due to the capacity of business to fight back against its critics. There are four important ways in which business has responded to a more turbulent environment:

1. by professionalising its lobbying function;
2. by increasing use of corporate PR;
3. by more systematic brand management;
4. and by manipulation of a key institution of democratic politics, the political party.

5.1 Professionalisation

'IBM doesn't lobby': this remark by a legendary CEO of the computer giant in the days of its domination of the industry in the United States summarised the way big business then influenced the state (quoted Hart: 2007:6). IBM 'didn't lobby' because it had subtler ways of exercising influence: this was an era when business' elder statesmen (they were almost invariably men) spoke for the business community, and enjoyed easy access to the top of government, often by virtue of serving in administrations at the highest levels. Until a generation ago a similar kind of restraint characterised big business in the UK. British big business 'didn't lobby'; influence was exercised as the by-product of other kinds of connections with government. In the 1960s leading business figures included Sir Paul Chambers, the head of the chemicals giant ICI, and Sir Frank (later Lord) Kearton: the former came to business after a distinguished career in the Inland Revenue, the latter was the favourite big businessman of the Labour Governments of 1964-70. The activities of individuals like Chambers and Kearton corresponded to the dominant style of the big business peak associations. The Federation of British Industries, the most important 'ancestor' of the CBI, built its effectiveness on the cultivation by its legendary Director General, Norman Kipping, of personal contacts with successive cohorts of the administrative elite in Whitehall (Blank 1973:47-8). The CBI, for over a decade after its foundation in 1965, was if anything even less like a lobbying body. In the age of corporatism it was, in Middlemas' phrase, a 'governing institution': an embedded part of the governing machine (Middlemas 1979: 372). The business institutions at the heart of this world did not need to 'lobby'.

The rupture probably occurred during Mrs. Thatcher's first period as Prime Minister immediately after 1979. Her instinctive suspicion of what she regarded as corporatist deals with big business, coupled with the impact of the recession following the second oil price rises and the early Howe budgets, culminated in a public row with the CBI in 1980 where the then Director General, Terence Beckett, promised a 'bare knuckle fight' with the government. Whatever the reality of that 'fight', it signalled the end of the age of the industrial statesman having a quiet word in the right place as the major means of exercising influence over policy. The business elite had to learn the skills of the lobbyist–and to hire those skills. It is from this date that we can see the growth of a formidable lobbying industry (a good map of the current scale of the industry is in Public Administration Select Committee 2009). Of course not all of these firms lobby on behalf of business all the time, but business clients are the mainstay of the industry. From this time we can also chart the growth of in-house lobbying capacities, in the creation of specialised lobbying and government relations divisions within big firms. Under various labels, (public affairs departments, government liaison divisions, even simply corporate public relations offices), firms set about equipping themselves with divisions able to do a number of things: liaising with the public sector, cultivating public opinion and monitoring the flow of news and opinion in the increasingly challenging environment documented in the preceding section. In short, as the corporation was increasingly lobbied it responded by lobbying in turn.

5.2 Corporate PR and news management

The rise of specialised business lobbying overlaps with a second development which has been documented in the work of Aeron Davis: the rise of corporate public relations as a distinct sector, indeed as one of the most rapidly growing sectors of the economy (2000, 2002). Corporate PR is particularly important in three domains of business. First, it has become critical in the management of investor relations, especially in managing investor (and wider market) expectations at critical moments such as the financial reporting season. Dense networks have been established between corporate PR and the world of market reporting generally, in forms such as the newsletters and advice circulars of brokers and investment bankers. Second, it is increasingly important in the management of business news, especially financial news. Davis documents a recursive world, where PR releases, brokers' circulars and news stories, especially in the financial press, routinely cannibalise each other. Finally, corporate PR has also been important in what is sometimes called the 'mainstreaming' of business news: the management of business reporting by placing stories that appear in 'mainstream' news rather than in specialised business sections.

5.3 Brand management

The rise of corporate PR is connected to the intensified efforts at brand management. The power of the brand was plain in some of the survey data on trust examined earlier: trust in selected brands was much higher than trust in other identities, like large companies or big business – even though the most successful brands are creations of big business. Moreover, as the case of a figure like Sir Richard Branson shows, the merging of a publicly constructed persona with a brand can create a successful business model. None of this is new. The rise of the giant corporation in the United States prompted efforts – and successful efforts – to endow it with a 'soul' (Marchand 1998). Fusing the constructed public persona and the brand is also not new: we only have to think of Henry Ford and the Model T. But what is new is the expansion of this kind of activity alongside the growth of corporate PR, the development of the increasingly conscious 'science' of brand management, and the growth of the academic sub-disciplines of marketing and brand management in business schools.

5.4 Manipulating and penetrating the parties

The professionalisation of the lobbying function; the growth of corporate PR; the rise of systematic brand management: all these might be summarised as conscious adaptations by business to the challenges described earlier in this report. But the final adaptation discussed here – the penetration of the political parties by business interests – is more adventitious. Business interests have been the contingent beneficiaries of the collapse of the mass party in Britain. The leading parties are more reliant than at any time since before the First World War on business financial support. By the 1950s both major parties had become mass institutions with millions of members: the Conservatives were not far short of three million; Labour well over one million. These members were critical to fund raising: Pinto-Duschinsky has shown that, even in the 1960s when this mass membership was declining, the Conservative Party, the institution most closely identified with business, actually received only a minority of its income (about 30%) from corporate sources (Pinto-Duschinsky 1981: 234). Labour, while not possessing quite such a formidable money raising machine in the constituencies, nevertheless was indeed a mass institution and could also rely on considerable financial support from the trade union movement. All this has changed. Mass membership has disappeared: the Conservatives presently have about 200,000 members, Labour about 170,000. Moreover, the parties in the constituencies are mostly gerontocracies. Thus the parties have lost machines that raised funds and supplied free labour at elections. Already by the 1990s both parties were in considerable financial difficulties. They were tied to a continuing search for business financial support, especially around election times.

The ensuing story is well known: scandals involving, variously, large donations from fugitives from justice (the Liberal Democrats); hunting overseas donations (the Conservatives); creative accounting of donations and loans so as to conceal the extent of party reliance on business finance (both main parties); and suspicious links between particular policy outcomes and particular business donations (the Eccleston affair and New Labour). But a more significant consequence has been to open the two main parties to penetration by the new working rich in the City of London. The Conservatives under the present prime minister are a good example: in 2005, when David Cameron became leader, the financial services industries were the source of just under a quarter of total cash donations to the party; by 2010 the figure had risen to just over 50% (Bureau of Investigative Journalism 2011; Watt and Treanor 2011). A large proportion of this money comes from the working rich created by the financial services revolution–high net worth individuals who have the means to make significant donations, and who as individuals do not feel constrained by the delicacies (and regulatory restrictions) that often hem in major corporations. A key threshold is a £50k annual donation, because this makes the donor a member of the 'Leaders Group', with an entitlement to meet 'David Cameron and other senior figures from the Conservative Party at dinners, post-PMQ lunches, drinks receptions, election result events and important campaign launches' (Conservative Party 2011). In 2010, 57 individuals from the financial services sector made donations sufficient to join the Leaders Group. We could have told a similar story about Labour before plutocratic support dried up in the years of terminal decline under the Brown Premiership.

6 Marx's hostile brotherhood: the problem of collective action in business

Faced with an increasingly challenging civil society, business in Britain has developed much slicker lobbying, PR and news management operations. The new City plutocrats have colonised the top of the party system. Some of the benefits can be seen in the success of promoting individual brands, managing news and buying access to the top of policymaking. But there remain important limits to the success of these adaptations. They can usefully be discussed under three headings: the nature of the penetration of the parties; the capacity of business to speak with a collective voice; and the capacity of business to shape the intellectual climate – which will bring us full circle to Schumpeter's nightmare. But though these points are distinct, they are all connected by a common theme: faced with a sustained cultural critique, business has serious problems in defending collective, as distinct from individual, corporate interests.

It is now not hard to buy access to the top of cash strapped parties. How far this does more than pump up the vanity of politicians and business figures as they hobnob with each other is less clear. It is easy to buy political friendships, but politicians are under such conflicting pressures that it is harder to translate the access and friendship into influence. The 'show trial' of the bankers before the Treasury Select Committee in 2009, or of the corporate tax avoiders before the Public Accounts Committee in 2011, shows how fickle the friendship of politicians can be when they sense votes, or even the chance of a sound bite on the evening television news. But more important still, a glance at the source of donations to the Cameron-led Conservative Party shows that they are not coming from across the spectrum of business. They are coming – for obvious sectional reasons – disproportionately from the financial services sector, whose interests are, to put it mildly, not always those of the wider business community. The parties are being penetrated by business, but they are being penetrated by a very particular set of business interests.

This bias is reflected also in the second difficulty experienced by business: that of organising collectively. Corporate PR and brand management do wonders for the esteem in which particular companies and brands are held: recall the gap between the high level of expressed distrust in large companies as a whole, and the high level of trust in particular brands. But the gap only dramatises the problem of organising for collective action. British business has form in this respect. The problems have bedevilled the history of trade associations and peak associations. They are rooted in the cultural history of the sector, in particular in the conception of the firm as that little kingdom identified by Gamble and Kelly. The parochialism has starved all but a few trade associations of resources and authority. From the Devlin Report on business representation (1972) to MacDonald's report on trade associations (2001) the story was the same: a small number of highly sophisticated operators in the trade association world, but a larger number of incompetent, badly resourced bodies. The tortuous history of peak association rivalries delayed the formation of a single peak association – the CBI – until 1965. And the Confederation's long decline as the voice of business since its brief golden age up to the end of the 1970s is also a story of weak authority over members, and incomplete coverage of the business community.

The difficulty in organising business for a common purpose also lies behind the third problem identified above, one that take us right back to Schumpeter's concerns with the changing intellectual climate: the difficulty British business has experienced in organising to shape the intellectual climate. This may seem a surprising observation: we have lived for almost a generation in a world where neo-liberal ideas have been in the ascendant. It is widely believed that neo-liberal think tanks generously funded by business have helped this ascendancy. It is easy to see why the belief has spread. There are indeed think tanks – of which the longest established and best known is probably the Institute of Economic Affairs – whose mission precisely arose from something akin to Schumpeter's pessimism about the future of the market order: that there was a stratum of intellectuals, often well placed in the elite institutions of higher education, critical of the market order and of the business sector, and that the influence of this stratum needed to be countered. The benchmark for this kind of activity is the United States. Since the 1970s American business has supported think tanks that have precisely the aim of justifying the business order. The best funded of these are sufficiently rich to support substantial research and continuing programmes for the dissemination of the results of that research. Over time the best endowed have also learnt how to work the wider channels of public debate to disseminate their ideas – for instance by placing op-eds in key opinion forming media outlets. Demonstrating that all this activity has indeed reshaped opinion of course raises complex questions of causation. But there is plenty of good evidence that corporate America has been prepared to fund activities designed to defend the collective interests of business, by attempting to shape the intellectual climate in which it operates.

Corporate Britain has not been prepared to fund in this way. We can see the contrast when we compare the leading pro-market think tanks in the UK and the USA. The rich American think tanks have substantial incomes. In the most recent reported fiscal year the American Enterprise Institute had an operating revenue of just over $28 million; the Cato Institute of over $20 million; and the Heritage Foundation of over $81 million (American Enterprise Institute 2010: 17; Cato Institute 2011: 36; Heritage Foundation 2011: 31). The Institute of Economic Affairs is the best established, and, in terms of its continuing contribution to policy debates, probably the most influential of the UK variety: its most recent accounts show an income of £896,000 (Charity Commission 2011a). Compare what is probably Britain's leading non-partisan think tank, the Institute for Fiscal Studies: its most recent report shows an income in excess of £5.4 million (Charity Commission 2011b). One of the striking features of the pro-market think tanks in the UK is the way they are tied to the electoral cycle. Take the case of the Policy Exchange, probably the most successful of the recent generation of think tanks close to Cameron Conservatism. Its income rose as the Conservatives' electoral fortunes advanced: from just over £980,000 in 2005-6 to just over £2 million in 2009-10. Not only does this still put it well behind the non-partisan IFS; the reliance on recurrent funding is striking. It has almost no long-term own resources: in the most recent financial year its investment income was only £100,000 (Charity Commission 2011c). It is at the mercy of the Conservatives' electoral fortunes. Contrast the Cato Institute which, apart from its vastly superior annual revenue (over $20 million) has raised $39 million dollars ($20 million in the most recent fiscal year alone) towards a target of a $50 million capital fund (Cato Institute 2011: 36). The Heritage Foundation has investment assets of over $120 million. Neo-liberal, pro-business think tanks may indeed have been successful in shaping the intellectual climate in the UK. But if so, they have been successful in spite of, not because of, largesse from the business community.

7 Schumpeter's nightmare and the hostile brotherhood

Schumpeter is the most important student of capitalism after Marx, and his understanding of capitalism was written in the shadow of Marx (for the intellectual history, McCraw 2007). It is fitting therefore that the problem British business faces in responding to Schumpeter's nightmare was aptly summarised in a famous dictum of Marx's: that capitalists are a hostile brotherhood, united by common interests, divided by sectional competition (Marx 1894/1959: 253). In the case of the United Kingdom the peculiar history of the firm has meant that hostility has usually triumphed over fraternity, and that history has also marked the changes of recent decades. Lobbying, PR, brand management, the colonisation of the party system: sections of business have been brilliant at all this. But the challenges faced by business as it encounters a critical civil society go beyond what can be managed by the smoke and mirrors of corporate PR. What emerges most clearly from an examination of the polling data on trust and confidence is widespread but incoherent anger. Business as a collective identity is despised, but PR and brand management ensure that particular businesses, and particular personalities, are exempted from this contempt. This contempt is not the product of agitation by discontented intellectuals. In a liberal society damning evidence eventually gets into the public domain. The collapse of confidence in the competence of British banks documented by the British Social Attitudes survey was not caused by radical intellectuals; it was caused by people's experience of, and media coverage of, greed, stupidity and recklessness in institutions with profoundly dysfunctional business models. The huge rise in the rewards appropriated by the corporate elite, and the fact that these rewards often bear no relationship to performance, is not an invention of discontented wordsmiths. And the difficulty in justifying this state of affairs arises not from the existence of malcontents but because, in a liberal society, economic practices require justification by appeal to a convincing theory of social causation and a convincing set of moral principles. In the case of the ballooning rewards of the corporate elite no such convincing theories exist, and no amount of corporate PR can conceal that fact. But this anger is being aroused in a cultural setting where the business sector faces long established popular scepticism, albeit of a fragmented and often incoherent kind.

What is remarkable therefore about the perceived legitimacy of business in Britain now is not so much the existence of cynicism and discontent but the absence of any clear focus for that cynicism and discontent–a lack of focus that was clear in the short-lived 'Occupy' protests of 2011. For this, the main political parties bear a large responsibility. In British democracy parties are supposed to provide a programmatic expression of popular discontent–or, in simpler English, to provide leadership. But the parties as presently constituted are incapable of this. Their connections with civil society are withered. At grass roots the parties, where they exist at all, are tiny gerontocracies. The metropolitan institutions have shrunk to cadres of professional politicians. The leadership, desperate for finance, is in the pockets of plutocrats. Business has a problem in fashioning some principled defence of its practices and reward systems. But the parties too have a problem in fashioning some response to popular discontent with those practices and reward systems. Until they do this the legitimacy foundations of the business order will indeed continue to decay, but the decay, at popular level, will only result in the kind of angry incoherence typified by the 'Occupy' protests of recent times.

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