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# Political Economy and Network Analysis

## An Untapped Convergence

by Mark S. Mizruchi

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As recently as the 1970s, sociologists, with a few exceptions, paid little attention to the economy. This has changed in the past three decades, however. During this time, two seemingly disparate, and yet potentially compatible, fields have emerged: political economy and economic sociology. Both approaches have roots that go back at least to the Nineteenth century, and it would be more appropriate to refer to the two fields as the “new political economy” and “new economic sociology” respectively. For my purposes here, I shall refer to them simply as political economy and economic sociology.<sup>1</sup>

Political economy has emphasized the embeddedness of economic activity within larger political institutions. Its focus in recent years has been on examining the effects of those institutions on variations in the nature of capitalist economies across nations. Economic sociology, at least as practiced in North America, has emphasized more micro and meso-level economic action. Its focus has been on subjects such as the behavior of firms within product markets and the meanings that economic actors draw from the cultures in which they operate. Although much of the work within both political economy and economic sociology has been framed within an institutional perspective (albeit with sometimes very different conceptions of institutions), many economic sociologists have relied heavily on an alternative approach: social network analysis.

<sup>1</sup> Some scholars in the economic sociology area in North America refer to the field as the new economic sociology [see Dobbin 2004]. The term new political economy has also been used, primarily in Europe. See the British journal, *New Political Economy*.

In this paper, I argue that network analysis has the potential for bringing together the fields of political economy and economic sociology. Given that their practitioners rarely engage one another, I believe that this integration would benefit scholars within both areas.<sup>2</sup> In the following sections I discuss the relation between political economy and network analysis, and argue that the two approaches are fully compatible. I illustrate this compatibility with a discussion of the field of power structure research – an area in which scholars have examined the relations between corporations and the state. I then discuss the decline of power structure research, and how renewed attention to this area could provide a means of linking political economy, economic sociology, and network analysis.

### **Political Economy and Network Analysis**

The term political economy was originally associated with what is now known as classical economics. Adam Smith used the term in *The Wealth of Nations*. It was included in the titles of the classic economic treatises of David Ricardo and John Stuart Mill. The term was used by Malthus in the title of one of his lesser-known texts. And Marx subtitled his *magnum opus* *A Critique of Political Economy*. By the early 1900s, in response to the marginalist revolution, the name had been superseded by the term “economics,” yet it remained in use over the succeeding decades. The *Journal of Political Economy*, formed at the University of Chicago in 1892, became a leading publication for neoclassical economic thinking (albeit with a somewhat greater focus on political issues than the other leading journals in the field, at least in recent years). The term has experienced something of a revival among scholars in the law and economics movement, as well as among both economists and political scientists interested in international trade.<sup>3</sup>

Despite its increased current emphasis on the role of the state, the field of political economy, dating back to at least the interwar period, has been associated most closely with neo-Marxian forms of thought. Among sociologists in both Europe and North America, the study of globalization and comparative economic institutions has maintained at least a trace, if not more, of its original neo-Marxist character, although this work has been associated more recently with a neo-Weberian approach.

<sup>2</sup> A 2006 conference Villa Vigoni, on Lake Como, organized by Jens Beckert and Wolfgang Streeck, brought together scholars from both sides of the Atlantic with the goal of creating a dialogue between the two approaches.

<sup>3</sup> A Google search for “what is political economy?” at the time of this writing yielded 513 hits. Among the most interesting of the early listings is an article by Eggers [2005].

Social network analysis has a very different history. Invented by a psychiatrist, J. L. Moreno, in the 1930s, its classic formative works were authored by anthropologists, its primary theoretical developments were made by sociologists, and its current center of gravity is among scholars in business schools. Whereas those in comparative political economy, whether classical or contemporary, have emphasized the ways in which economic and political institutions have affected the behavior of nations, the classic works in network analysis have involved interactions among individuals or, more recently, among firms.

It is difficult to imagine two more different approaches. Political economy is highly macro, with the nation-state as its most frequent unit of analysis. Network analysis has operated at a far more micro level, with individual actors or firms as its units. Comparative political economy emphasizes the importance of institutions. Network analysis rejects the concept of institutions, arguing that it obscures the constellations of concrete interactions that form the basis of social life. Political economy, if not overtly critical of capitalism, is at least skeptical of its master narrative of the natural superiority of free markets. Network analysis, given its anti-institutional focus, effectively denies the existence of capitalism altogether.

Yet despite the seeming differences between the two approaches, I shall argue that political economy and network analysis are fully compatible, and that each has a considerable amount to offer the other. In fact, I suggest, each approach has missed out on significant opportunities by failing to take the other into account. I shall illustrate this point by focusing on an area in which the two approaches have at least occasionally been fused, not always effectively but often with considerable success: the study of national power structures, based largely in corporate elites. I begin with a brief overview of the study of national power structures, tracing its roots to Marxist theories of the state. I then provide a brief discussion of the basics of network analysis, and show how network analysis was useful in addressing the debates in political economy over the relation between corporations and the state. Following these sections, I discuss, and try to account for, the decline of power structure research in recent years. I conclude by presenting a case for the relevance of a network approach to the study of political economy. I hope that this discussion will allow us to see the value of drawing simultaneously from the two approaches, as well as the challenges scholars face in attempting to do so.

## Political Economy and the Power Structure

Although interpreters of Marx have been notorious for their lack of agreement, there is a widespread consensus that Marx contributed little theorizing on the role of the state. The origins of Marx's theory of the state are often attributed to the comment by Marx and Engels, in *The Communist Manifesto*, in which they asserted that "the executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie" [Marx and Engels 1998, 37]. This statement has often been incorrectly translated, with Marx and Engels reputedly suggesting that the state was the "executive committee of the bourgeoisie" (a Google search on the phrase yielded 926 hits as of this writing). Although it is unclear whether the users of the second, incorrect, translation are aware of the implications of their error, the two translations have different meanings. In the first, the state is subordinate to the bourgeoisie, since the executive of the state is "but a committee" that manages the bourgeoisie's affairs. In the second translation, the state is superordinate, in that it constitutes an executive committee of the bourgeoisie, with presumed authority over it. These alternative views presaged some of the subsequent debates over the role of the state in Marx's model. In fact, the latter approach, in which the state enjoys a degree of autonomy, received some support in Marx's discussion of the floundering of the French bourgeoisie in *The Eighteenth Brumaire of Louis Bonaparte*.<sup>4</sup>

Although Marx made reference to the state at many junctures, he never provided a comprehensive theory of it. One likely, if not primary, reason for this is that in his model, politics was epiphenomenal, a consequence of class conflict rather than an independent cause of it. Marx did make references to the "ruling class," however, and he raised (and left unanswered) numerous questions about the political organization of the bourgeoisie. Subsequent Marxist commentators, with a few exceptions, such as Lenin and Gramsci, had little to say about the state as well, since the state was viewed as dominated by the capitalist class, and thus unworthy of study in its own right.

<sup>4</sup> One example in particular could be seen as providing the foundation for what became known as the "structuralist" theory of the capitalist state: "The bourgeoisie therefore confesses that its own interest dictates that it should be delivered from the danger of *governing in its own name*; that, in order to restore tranquility in the land, its bourgeois parliament must, first of all, be given its quietus; that in order to preserve its social power inviolate, its political power must be broken; that the private bourgeois can only continue to exploit the other classes and to enjoy undisturbed property, family, religion, and order on condition that their class be condemned along with the other classes to a like political nullity; that in order to save its purse, it must abandon the crown" [Marx (1852) 1972, 473-474, emphasis in the original].

It was not until the 1960s that scholars within the Marxist tradition attempted to provide a systematic Marxist account of the nature of the state. There were three works in the United States during the 1950s that presaged this development. The first was an article by Paul Sweezy [1962], in which he attempted to outline the contours of the “American ruling class.” This class, Sweezy argued, was based in property ownership and “freely intermarrying families.” Within the next five years two works appeared that spoke to the role of a presumed dominant elite in American society. The first, Floyd Hunter’s *Community Power Structure* [Hunter 1953], examined the nature of the elite, primarily the heads of major corporations and banks, in a large city in the Southeastern United States. The second, C. Wright Mills’ *The Power Elite* [Mills 1956], focused on the national ruling elite. Neither Hunter nor Mills wrote from an explicitly Marxist perspective. Mills, in particular, developed a model of inequality that was based not in classes, in a Marxian sense, but rather in terms of leadership of major organizations, an approach closer to that of Weber than to Marx. Both authors, Mills in particular, relied on an approach that had been used in the early Twentieth century – in an investigation by the United States Congress [1913] and a book by Supreme Court Justice Louis Brandeis [1914] – to identify the concentration of power: the formal and informal connections among the leaders of major organizations.

According to Mills, three institutions were dominant in the 1950s United States: large corporations, the executive branch of the government, and the military. In Mills’ view, those at the heads of these organizations constituted the “power elite,” a relatively small group of privileged individuals whose interests diverged from those in the larger population. These elites had a series of mechanisms to ensure their unity of interest and practice, including common social backgrounds and socialization, common membership in elite social organizations, and overlapping memberships in major institutions. Mills made a substantial effort to document these connections, but he did not provide a systematic means of doing so.

In the 1960s things began to change, as scholars working within a Marxist framework began to make substantial efforts to develop a theory of the state. Perhaps the most important effort to do this was a treatise by the British political scientist Ralph Miliband [1969]. Miliband argued, following Marx, that the capitalist class played a dominant role in the society, and that it did so in part through its domination of the state. One of the primary reasons that business controlled the state, according to Miliband, was that those in significant positions in government were disproportionately from elite social backgrounds, thus biasing state actions toward the interests of the capitalist class. As Mills had done, Miliband assembled a considerable amount of evidence, but as with Mills, he failed to provide a systematic demonstration of

elite domination. Meanwhile, Miliband's argument set off a debate among Marxist political theorists.

The best-known critique of Miliband was provided by Nicos Poulantzas [1972], who argued that Miliband's focus on the social origins of government officials was misplaced. The relation between the state and the capitalist class was an objective one, Poulantzas suggested. The role of the state under capitalism is to uphold the interests of the capitalist class as a whole, he argued, and this will occur regardless of whether those with business backgrounds occupy the helm of state institutions. Moreover, Poulantzas suggested, the state is not a mere instrument of the capitalist class, but rather has a degree of autonomy over business. This is necessary, he argued, because internal conflicts of interest within the capitalist class rendered the class incapable of acting in its own long-term interest. The state must have the ability to make decisions that, however much opposition they might arouse from business in the short run, benefit the group in the long run.

Poulantzas' argument on the relative autonomy of the state was pushed even further by Offe [1974] and Block [1977]. In these arguments, the state is an independent entity with its own set of interests and imperatives. The state still operates in the interests of the capitalist class as a whole, but it does so not because it is controlled by the capitalist class, but because it depends on corporate economic activity for its revenue. Were the state to go too far in placating the interests of the working class or other opponents of business, it would risk a "capital strike," that is, the loss of investment. A lack of investment would lead to an economic downturn, which would deprive the state of its customary level of tax revenue. Interestingly, a pluralist political scientist, Charles Lindblom [1977], developed an almost identical argument, albeit from a very different perspective. By the late 1970s, an alternative, neo-Weberian, approach to the state had emerged, the leading proponent of whom was Theda Skocpol [1980]. This "state-centered" model, in which the state was viewed as an independent entity, standing above the larger society, was the next step beyond the point at which first Poulantzas, and then Offe and Block, had taken the Marxist theory of the state.

The issues at the heart of these debates reflected an era and a set of conditions that, some might argue, have little relevance to the contemporary political environment in capitalist nations.<sup>5</sup> There is certainly a basis for debate on the extent to which the state in capitalist societies is biased toward the interests of business, a position

<sup>5</sup> Contemporary scholars who might be viewed as descendants of this tradition have continued to write on state theory, albeit with a focus affected by changing historical events. For an example that remains within the Marxist tradition, see Jessop [1990]. For a discussion that focuses on "neo-corporatist" systems in Europe, in which power is shared between capital and a range of other groups, under the authority of the state, see Streeck and Kenworthy [2005].

that even pluralist theorists increasingly came to accept [Dahl 1982; Manley 1983]. My point is not to argue for the continuing relevance of debates over the nature of the capitalist state, in some abstract sense. I suggest instead that this debate stalled primarily because it was so abstract. At the same time, an issue that was central to these debates – the relation between corporate elites and the state – emerged as a major area of empirical study. What was missing from the earlier work on the state, I shall argue, was the systematic application of network analysis to the relations among actors within the business community.

### **Network Analysis**

I have no intention of providing a didactic overview of the social network perspective. I have done so elsewhere [Mizruchi 1994; 2005], as have others [Scott 2000; Wasserman and Faust 1994; Wellman 1988]. I do want to discuss some basic principles of the approach, however, to demonstrate both its differences and compatibility with the neo-Marxian political economy approach discussed in the previous section.

Network analysis is based on the idea that the most important components of social life rest neither in the formal institutions under which actors operate nor in the individual attributes and traits with which they are identified. Rather, the most important aspect of social life, according to network theorists, is the nature of the relations that actors have with one another. These relations can be mapped into a structure, network analysts suggest, and the structure of the resulting network determines to a great extent the nature of the relations within it. It is less important to know that an actor is a white, middle-class, Protestant male, for example, than to know the specific constellation of relations within which the person is situated [White, Boorman, and Breiger 1976]. The constraints and opportunities provided by these relations are believed to have a greater effect on behavior and outcomes than do either individual attributes or subjective states such as internalized norms or values.

As I noted earlier, network analysis originated in psychiatry and received its early classic treatments in anthropology. In these works, as well as subsequent studies by sociologists, the focus tended to be on relatively small groups. Many of the key early publications using these techniques involved laboratory experiments, in which groups of five or fewer subjects were arranged into various network structures and then asked to solve problems or to exchange information or goods [Bavelas 1950; Leavitt 1951]. Applications to macro-level phenomena were limited by data collection and computational difficulties. To construct the network of a full population requires



in most cases that all members of the population describe their relations with all other members. As groups exceed even 30 subjects, this becomes an increasingly difficult proposition. Even were it possible to collect data on larger populations, computational difficulties due to limited computer memory have, until recent years, also placed severe limitations on the sizes of the populations that network analysts could study.

Even in the absence of data collection and analysis problems, the use of a network approach would appear to have little to add to a political economy model. In the political economy approach, institutions are viewed as having significant effects on the actors within them. Capitalism has certain systemic features (its class structure, for example), and individual actors will be subjected to the forces of these institutions regardless of their social connections. In this sense, the political economy model has much in common with traditional normative approaches in sociology, in which social roles are accompanied by a set of behavioral constraints that are operative regardless of any direct (or indirect) communication structures among the actors occupying those roles. The political economy model emphasizes the objective constraints on the role-occupants' actions, while the traditional sociological model emphasizes a set of possibly internalized norms associated with the position. In both cases, however, actors are subject to systemic forces that transcend the peculiarities of their individual situations. In the network approach, on the contrary, the same institutional forces will yield a broad range of behaviors, depending on the specific situations in which actors find themselves. A worker with conservative friends, for example, may have political views that are very different from those of a worker with more liberal friends. An engineer with an acquaintance who knows someone whose firm is hiring may have greater opportunities for advancement in his career than will an engineer without such connections.

### **Is Network Analysis Relevant to Political Economy?**

As I hope is evident from the preceding section, network analysis represents an alternative perspective to that of the political economy approach. The question is whether it has anything to offer the latter. I shall argue in the following paragraphs that the network approach actually provided a solution to some of the most vexing issues in the political economy debates on the nature of the state. To do this, I shall first discuss one of the key unresolved issues that emerged from the earlier debates over the relation between corporations and the state.

### *Power and Conflicts of Interest*

One branch of the political economy perspective, which in earlier decades was referred to as *structuralism*, assumes that class relations have an objective character and that individual actors are the bearers of these objective relations.<sup>6</sup> This is the basis of Poulantzas' critique of Miliband, as well as his conception of the capitalist state. Firms in particular industries have certain built-in interests, Poulantzas suggested, and these interests may be objectively in opposition to the interests of firms in other industries. To take a commonly-cited example, automobile manufacturers require large amounts of steel. They thus have an interest in being able to procure steel at as inexpensive a price as possible. In the United States, steel producers in the post-World War II period were increasingly unable to produce steel as cheaply as were Japanese firms. The Japanese firms began to flood the American market, and U.S. auto companies were more than happy to purchase steel from them. Fearing a loss of their market share, American steel manufacturers organized and lobbied the government to impose tariffs on imported steel [Prechel 1990]. This raised the price of Japanese steel sufficiently so that it was no longer preferable to the American-made product. Realizing the prospect that they would be forced to pay more for steel, the auto companies opposed the import tariffs. Conflicts between the auto and steel industries on this issue have raged intermittently for decades. The conflicts are driven by the opposed objective interests of the two industries. This view, it turns out, is consistent with the most widely-held position among American political scientists, known as pluralism.

A key tenet of the pluralist perspective is the notion that organized groups pursue their interests, often by means of lobbying state officials. Although pluralists acknowledge that a group with abundant resources will have considerable potential for power, this power will be realized only to the extent that the group is unified [Dahl 1958; Galbraith 1952]. Pluralists have generally acknowledged that the business communities in developed capitalist nations are rich in resources. They have argued, however, that because of conflicts of interest (such as those between auto and steel), business is incapable of achieving the unity necessary to exert a consistent level of dominance over the state. This argument is remarkably similar to that of Poulantzas. Poulantzas believed that the state acted in the interest of the capitalist class, but that the capitalist class as a whole was fraught with divisions that rendered it incapable of acting on its own, similar to those described by Marx in *The Eighteenth*

<sup>6</sup> Structuralism in this context referred to the French structuralism of Levi-Strauss and, more relevant for this debate, Althusser.

*Brumaire*. The implication of both the pluralist and the structuralist political economy perspectives was that various sectors of the business community experienced inherently conflicting interests that made it virtually impossible for them to approach the state as a unified front.

The problem for structuralist theorists, as well as pluralists, is that they failed to consider the possibility that there might be forces within the business community that could enable business to resolve its disputes prior to approaching the state. Yet there is considerable evidence that such forces have existed. An excellent example of this was provided in a study by Whitt [1982] of five propositions to fund mass transit in California during the 1960s and 1970s. In the post-World War II period, automobile traffic congestion in downtown San Francisco became so debilitating that a number of major corporations began to move (or threaten to move) their operations to the suburbs. The local financial community began to worry about the prospect of declining downtown property values, and suggested a solution: a mass transit system that would bring suburban residents downtown by giving them easy access to the city. To promote this idea, a group of leading bankers raised it at meetings of the Bay Area Council, an organization consisting of the heads of major corporations with offices in the region. Although the financial community as a whole supported the idea, representatives of several major oil companies expressed opposition, concerned that a mass transit system would lead to a decreased reliance on cars. After considerable discussion, the members of the financial community were able to convince the oil company executives that the system, the Bay Area Rapid Transit (BART), would have little negative effect on the use of cars, and might even increase it since it would make it easier for downtown-based employees to live in the suburbs. Not only did the oil company executives agree to support BART, but they even contributed money toward the passage of the bond issue on which the public voted to fund the project. This unified business position, forged in the Bay Area Council, was instrumental in the passage of the proposition, which won by a small margin. In a second case studied by Whitt, oil company executives organized to oppose a statewide proposition that would have diverted funds from the California Highway Trust Fund to mass transit. Whitt showed that the correlation between the oil companies' sales in California and their contributions toward the campaign to oppose the measure was .94, suggesting that the contributions were coordinated. Similarly, in a subsequent campaign, supported by major California banks, the correlation between bank assets and contribution size was .99 [Whitt 1982, 147-148].

Whitt's case studies provide compelling evidence that business interests are capable of forging a unified position on political issues on which they would appear

to have otherwise conflicting interests. They represent only a series of isolated cases, however. Bauer, Pool, and Dexter [1972], in contrast, failed to find evidence of business consensus on a series of Congressional issues involving protective tariff legislation. These conflicting findings raise the question of the extent of political unity within the business community in general. To assess this issue, we must return to the early 1970s, when network analysis was first applied to relations among large corporations.

### **Corporate Interlock Networks**

In the early 1900s, as large corporations were consolidated in the United States, critics began to note that these firms were connected with one another through what were termed “interlocking directorates,” in which directors of one firm sat on the boards of other firms. In 1904, for example, George F. Baker, president of the First National Bank of New York, sat on the boards of 38 firms. The National Bank of Commerce and Equitable Life Assurance had 14 interlocks, meaning that they shared 14 individual directors in common [Mizruchi 1982, 64-65]. Interlocks were studied in the 1913 Congressional Report issued by the House Banking and Currency Committee (more widely known as the Pujo Report, after the committee chair, Arsene Pujo). The results of this report were popularized by Supreme Court Justice Louis Brandeis, in his *Other Peoples' Money, and How the Banks Use It* [Brandeis 1914]. Director interlocks were studied again in the 1930s by two New Deal commissions, in the early 1950s in a Federal Trade Commission study, and in the 1960s by another Banking and Currency Committee study. Social scientists had virtually ignored the topic until the late 1960s, however, when an economist, Peter Dooley [1969], examined the factors that accounted for firms' propensity to interlock with other firms.

In the early 1970s, a sociologist, Michael Schwartz, began to apply network analytic techniques to the analysis of interlocks. Picking up on a position first articulated by Austrian Marxist economist Rudolf Hilferding [1981] and later popularized by Lenin, Schwartz was interested in examining the extent to which power within the capitalist class was centered among large financial institutions. As capital became increasingly concentrated in the early Twentieth century and firms' needs for investment capital intensified, power, according to Hilferding, became lodged in the banks and insurance companies that controlled the capital on which nonfinancial corporations depended. Hilferding's analysis was focused on Germany, but contemporary observers of the United States drew similar observations about the power of the banks [Brandeis 1914]. The dominance of banks during the period from 1890 to 1920 is

widely, if not universally, recognized, and this period in American history is often referred to as the “era of finance capital.” Most social scientists believed that the power of banks had waned after the Depression, however, and by the 1950s, the managerialist perspective, which held that large corporations had abundant resources and were no longer dependent on external financing, predominated. Even Marxists, such as Baran and Sweezy [1966], accepted the argument that the banks had become mere intermediaries, with no more power than the accountants and lawyers who similarly provided advice to corporations.

Schwartz was among the first social scientists to question the managerialist thesis and to reopen the debate over the role of the banks.<sup>7</sup> In order to investigate the power of the banks, Schwartz used network techniques to examine the pattern of director interlocks among large firms. Among the most consistent results of the early network studies was the finding that centrally located actors in social networks tended to have high levels of status and power [Bavelas 1950; Leavitt 1951; Hopkins 1964]. Adopting this logic, Schwartz suggested that the most central corporations in an interlock network will be those with the most power. Results from the first two studies, by Mariolis [1975] and Bearden *et al.* [1975], indicated that the list of the most central firms was dominated by large commercial banks and insurance companies. As reported in Mintz and Schwartz [1985], nine of the ten most central U.S. firms in 1962 were either banks or insurance companies, despite the fact that these sectors contained fewer than 15 percent of the companies in the data set. In a related study, based on networks of 167 firms for seven different years between 1904 and 1974, I found that financial institutions were consistently the most central firms in the network during the entire 70-year period [Mizruchi 1982].<sup>8</sup>

In addition to the findings on bank and insurance company centrality, these studies revealed that the vast majority of large firms in the United States were tied into a single connected graph (known in graph theory as a “component”), in which every firm can reach every other firm through the ties among their board members. Mariolis (1975) found that among the 797 firms that he analyzed from 1969, 722 formed a single, connected component and that 91.5 percent of these firms could reach one another in no more than four steps. Among the 167 firms in my study (Mizruchi, 1982), at least 96 percent were within three steps of the most central

<sup>7</sup> An important concurrent work was an article by Zeitlin [1974], which questioned the extent to which ownership had become separated from control in large American corporations.

<sup>8</sup> In a more detailed examination of the data from 1904, David Bunting and I showed that a firm’s level of “influence” was associated with a modified measure of centrality developed by Schwartz’s group. See Mizruchi and Bunting [1981]. More recent studies, on the other hand, have shown that network centrality and power are not always positively associated. See Cook *et al.* [1983] and Mizruchi and Potts [1998].

firm in all seven years. The finding of a highly-connected interlock network in the United States has been replicated on data from 1999 by Davis, Yoo, and Baker (2003). Among 600 large firms, 516 formed a single component, and more than 97 percent of these firms were within four steps of the center. The average distance between any pair of firms was 3.46 steps, virtually the same as in 1982, the authors' first year of data.

These two sets of findings revealed that the vast majority of the largest American corporations were connected to one another through director interlocks. The findings also suggested that major banks and financial institutions were the most centrally located firms, although a study by Davis and Mizruchi [1999], as well as the findings of Davis, Yoo, and Baker [2003] indicate that bank centrality declined between the early 1980s and the 1990s. Similar results regarding the ubiquity of interlocks and the prominence of financial institutions were found in the European context as well [Stokman, Ziegler, and Scott 1985]. What none of these studies demonstrated was whether director interlocks had any implications for the firms' behavior, especially their political behavior. The implicit criticism of structuralists, that corporations' behavior was driven by the dictates of their market positions, suggests that firms' network ties would have little impact on anything of significance.

During the 1970s and early 1980s, as studies of corporate networks proliferated, there was little work showing that interlock ties had any demonstrable consequences for firm behavior. As of the early 1980s, only two studies had done this: an article by Ratcliff [1980], showing that highly-interlocked banks within a local urban community were more likely than less-interlocked banks to invest their funds outside the region, and a dissertation by Koenig [1979], who found that centrally-located firms in the American interlock network were disproportionately likely to contribute funds toward Richard Nixon's 1972 reelection campaign.

Under these circumstances, it was essential to be able to show that these inter-firm networks had actual political consequences. Systematic data on corporate political behavior were relatively scarce, but had recently become available. As a result of the Federal Election Campaign Act of 1971 and its aftermath, corporations were now allowed to form political action committees (PACs) that were legally independent entities but could be financed by the firm. These committees collected funds from management-level employees of the corporation and then dispersed funds to candidates deemed to be acting in the interest of the firm. The committees were required to disclose all such contributions, and the data were made available to the public. This availability led to a flood of articles, especially by political scientists [see Mizruchi 1992, 88-89 for references]. It also provided a means of examining the behavioral consequences of interfirm network ties.

## Measurement and Interpretation Issues

Data on director interlocks and PAC contributions share a number of ambiguities. Interlocks create formal ties between firms, in which individual directors are charged with simultaneously representing the interests of both sets of stockholders. This would appear to create a unity of interest between the firms, and it provides an opportunity to mediate any disputes that might arise between them. It might also create conflicts of interest, however, since in disputes between the firms it is unclear whose stockholders the interlocked director should represent. This latter issue was a primary concern of the critics of interlocks in the early Twentieth century.

Director interlocks can occur for a number of reasons. In some cases they represent significant ownership or even potential influence relations between the firms (although this latter phenomenon appears to have been relatively rare since the early part of the Twentieth century). In other cases interlocks may reflect significant business transactions between the firms. Interlocked directors may be invited to sit on boards for their expertise, or for the prestige that their presence contributes. They may reflect mere friendship patterns among individuals, and they may reflect the ambitions of individuals who hope to advance their careers. Although there is little consensus on why interlocks form, or even what directors actually do, there is now a general acceptance that they provide channels for the diffusion of information across firms. This suggests that whatever their origins, their presence will have certain consequences for firm behavior [Mizruchi 1996].

PAC contributions, on the other hand, are made primarily to candidates running for Congressional office, which in the United States means either the Senate or the House of Representatives. In the House especially, the overwhelming majority of races are effectively uncontested; that is, incumbents experience either no opposition or only token opposition. Corporate PACs contribute heavily to incumbents, even ones facing little opposition, primarily as a means of gaining access rather than to influence the outcome of elections [Clawson, Neustadt, and Scott 1992]. Interviews conducted with PAC officials [Handler and Mulkern 1982; Clawson, Neustadt, and Scott 1992] indicate that the firms view these contributions as reflections of their political interests.

PAC contributions are not the only form of systematic data on corporate political behavior. Data are also available on the testimony of firm representatives before Congressional committees. Firm officials are often either invited or request to testify at hearings on various issues of concern to their companies. The Congressional Information Services provides an index that includes a list of every case in which a firm representative testifies before a committee. The testimony itself is available in

archives. This provides an opportunity to identify and record the firms' public positions on political issues. As such, it also provides an indicator of the firms' political interests.

In a study conducted over several years, I examined the effects of network ties among 57 large American corporations on the firms' political behavior. This work appeared in several articles, but is most fully explicated in a book-length treatment [Mizruchi 1992], in which I address issues of relevance to Marxist theories of the state using network analytic techniques. As we saw earlier, the debates over the nature of the state and its relations with the business community – between structuralist Marxists and pluralists on one hand, and so-called instrumentalist Marxists and elite theorists on the other – can be reduced to one central issue: the extent to which the business community is politically unified. After years of engagement with this issue, I concluded that the question of *whether* business was unified was not resolvable. Clearly, consistent with the claims of structuralists and pluralists, there were situations in which business was unable to resolve its disputes. There were also, contrary to these claims, many cases in which business was indeed able to reach a unified perspective. The key issue, I decided, was to identify the conditions under which business unity occurred. Business unity thus had to be seen as a contingent phenomenon. I argued that the presence of interfirm networks provided the conditions that made business unity possible.

There were two broad sources of business unity, I suggested. On one hand, unity was likely to occur between firms in industries that were highly interdependent. On the other hand, unity was likely to occur between firms that shared social ties. Regarding the interdependence thesis, I argued that firms that are highly dependent on other firms for either inputs or sales will experience pressure, implicit or explicit, to avoid antagonizing those firms, even if it means taking a position contrary to their initial interests. This process is illustrated in Whitt's study, in which he found that banks that had previously supported environmentalists in supporting the diversion of highway funds to mass transit subsequently altered their position [Whitt 1982].

The reason, revealed in an interview with a banker, was that the banks were concerned about alienating a group of oil companies, who were major customers and who strongly objected to the proposition. Regarding the role of shared social ties, network theory suggests that actors are likely to be influenced by those with whom they interact. Assuming that information and opinions are communicated through director ties – as considerable evidence now suggests is the case [Davis 1991; Haunschild 1993; Mizruchi 1996] – we would expect firms that share directors to have higher levels of political unity than do firms that do not share directors.



Because I was examining unity between firms, and because I was examining the effects of specific ties, my units of analysis for this study were interfirm dyads, or pairs of firms. To measure the unity between firms, I focused on similarity of behavior. With campaign contributions, this meant contributions to the same candidates (although I also examined contributions to candidates of the same party and ideology). With testimony, this meant expressing the same position at Congressional hearings. Although it seems straightforward to assume that expression of the same position represents unity (at least on a single issue), common contributions to the same candidates may occur for many reasons, some of which may have little to do with similarity of interest. Two firms that contribute to the same candidate might even be in direct competition with one another, as when the firms are competing for a military contract and both want to influence a particular legislator.

Despite the multiple possible meanings of contributions to the same candidate, I chose to treat similarity of behavior as my operational definition of unity. A basic tenet of network theory, as well as much social science, is that motives are often decoupled from outcomes; that is, knowing actors' motives does not automatically allow us to predict the outcomes of their actions, since many actions have unanticipated consequences. Imagine that a candidate is in a tight reelection campaign, such that a relatively marginal contribution may be sufficient to affect the outcome. Now imagine that two firms that were competing with one another both made a contribution to that candidate. Were this to occur, the outcome of these common contributions would be exactly the same as if the two firms were highly cohesive and had decided jointly to make the contributions. In other words, the outcome of the similar behavior would be the same, regardless of what precipitated it. This does not mean that the sources of the similar behavior are unimportant. If that were the case, there would be no point in trying to predict it. The point is, once we predict the conditions under which similar behavior occurs, we can deduce certain aggregate outcomes from it.

### **Contributions and Unresolved Questions**

The work I have described in the preceding sections seems far removed from the political economy perspective that I discussed earlier in the paper. First, although the focus is on business political behavior, it is behavior that occurs at the Congressional level, both in terms of campaign contributions and presentations at hearings. Congressional politics in the United States represent what Mills [1956] termed the "middle levels of power," which, in his view, was not where the key decisions were being made. Those who posited a unified elite could easily argue that the similarities

and differences in firm behavior that I identified reflect relatively minor differences on day-to-day affairs. Structuralists could argue that these differences reflect genuine conflicts of interest among firms, but that this has little effect on the workings of the system, since the state ensures that these conflicts are resolved in a way that maximizes the long-run interest of business as a whole. Pluralists would see them as evidence that the business community is, in Dahrendorf's words, a series of "partly agreed, partly competing, and partly simply different groups" [Dahrendorf 1959, 47]. I may have shown that network analysis has value for studying the middle levels of power, or for identifying the specific cleavages within the business community. But what value does this have for the study of political economy? And what further work needs to be done to demonstrate its relevance?

This work does, I would argue, address some of the key issues in the area of political economy. It examines the structure of the business community, or what used to be called the capitalist class. It deals with the question of under what conditions corporate unity is possible, as well as with sources of conflict across sectors. It shows, for example, that opposition between firms, in terms of contributions to candidates that directly oppose one another, is most likely to occur in the absence of both economic interdependence and director interlocks. This finding has political implications, in that it provides a means of identifying potential allies for non-business actors.

The findings on the role of corporate networks in firm political behavior also have implications for contemporary debates over globalization. One widely-held argument regarding globalization is that the proliferation of foreign economic activity and the increased mobility of capital have weakened individual states, making it more difficult to maintain social welfare expenditures and other policies that benefit the general public [Cerny 1997; Frieden 1991; Strange 1996]. By threatening to move their capital elsewhere, or by actually doing so, corporations can coerce states to scale down their spending on social programs that may run counter to the interests of business. To fully evaluate this argument, it is necessary to understand the extent to which the state depends on business support, as well as which segments of the business community stand to benefit, or suffer, from the reduction of social welfare expenditures. The application of network techniques to the structure of the business community provides one way of assessing these issues. There is also the question of whether globalization has been facilitated by (or has contributed to) cross-national network ties. There has been little work on this topic, although Fennema [1982] and Carroll [2003] have produced book-length treatments on international interlocks, and others have begun to study the topic [Kentor 2005; Staples 2006]. These are issues for which a network approach could contribute valuable insights to questions raised by those in the political economy tradition.

## The Decline of Power Structure Research

Unfortunately, for reasons that are not well understood, since the early 1990s the application of network analysis to the study of corporate power and other topics of relevance to the area of political economy has undergone an apparent decline. Some work has continued to be done in Europe, most notably a major comparative study by Windolf [2002].<sup>9</sup> There is the above-mentioned study of international networks by Carroll [2003]. Scattered works have been conducted in Australia and New Zealand [Murray 2001], as well as the former Eastern block [Okhmatovskiy 2005]. There has been little such work in North America, however, although Dreiling [2001] has produced a study of corporate political action during the campaign to pass the North American Free Trade Agreement, and Burriss [2005] has conducted studies of the effects of interlock ties among individuals on the political behavior of corporate leaders. Meanwhile, those writing about globalization have not made use of network techniques, either because their work is at a highly macro level or because their theoretical models focus on the role of institutions rather than relations.<sup>10</sup>

Ironically, many of the primary users of network analysis to study corporate behavior now reside in business schools. Network ties among firms have been shown to affect the firms' adoption of takeover defense policies [Davis 1991], acquisitions [Haunschild 1993; Palmer *et al.* 1995], and financial strategies [Mizruchi, Stearns, and Marquis 2006], as well as firm performance [Keister 1998]. Some of this work – especially that by Davis – has implications for the identification of corporate malfeasance, and thus has political implications. Most such work is directed toward understanding firm strategies, however, with the implication that director ties are one possible tool that firms can use to increase their profits.

What happened to the study of corporate elites? One possible source of its decline in North America has been the increased attention in sociology to issues of race and gender inequality, with the corresponding decrease in attention to class inequality. The decline in focus on class inequality can be attributed to several factors. Perhaps the most significant one has been the near extinction of the labor movement in the United States (which corresponded with the shift from a manufacturing to a service economy), as well as the realization that the few remaining unionized manufacturing workers in core industries were relatively well-compensated, and thus, financially at least, a part of the middle class. Meanwhile, the low paid workers in the

<sup>9</sup> See also a new work on the Netherlands, by Heemskerk [2007].

<sup>10</sup> See Smith and White [1992] for an exception, as well as several of Smith's more recent works (listed on his website, [http://www.faculty.uci.edu/profile.cfm?faculty\\_id=2529&term\\_list](http://www.faculty.uci.edu/profile.cfm?faculty_id=2529&term_list)). See also a recent dissertation by Lloyd [2005].

rapidly growing service sector consisted disproportionately of women and minorities, which led to a coupling of working class status with gender and race in ways that were less evident in previous decades.

The general shift toward economic conservatism – now referred to as “neo-liberalism” – especially in the United States, but to some extent in Europe as well, also played a role in shifting attention away from traditional issues of class interests and conflicts. The fall of the Soviet Union did not by itself demonstrate the bankruptcy of socialist ideas – the Soviet system had been an anathema to Western leftists for many decades – but along with the shift toward neo-liberalism, it did reinforce the growing acknowledgement that capitalism was not about to disappear any time soon. This meant that questions about the nature of the capitalist class, and strategies to confront it, no longer seemed relevant to the contemporary world. Instead, the focus shifted toward the global economy, which now seemed increasingly salient, although this was hardly a new phenomenon, having been a focus of attention in political economy dating back to Adam Smith.

Finally, the failure of socialist ideas was now seen in part as a failure to understand the role of culture in social life. The emphasis on structural forces that had been at the center of the political economy approach was viewed by many scholars as incapable of addressing a range of questions. Perhaps socialism failed, these people reasoned, not because of the economic success of capitalism, but rather because capitalism had a master narrative that more easily resonated with the working class. In the United States especially, the larger public was receptive to the increasingly prevalent discourse about the virtues of the free market and the pitfalls of government regulation. In more recent years, narratives involving personal and social morality have played a significant role in American politics, in many cases a more salient one than economic issues. The traditional discourse in support of the economically disadvantaged became a relic of an era long since past.

Many scholars who had worked within a political economy perspective found this approach no longer adequate for understanding these changes, in particular the apparently increasing significance of culture. Unwilling to return to the normative sociology that had predominated in the 1950s and 1960s, many of these scholars turned instead to postmodernist and poststructuralist approaches, in which the concepts that had dominated political economy – class, capitalism, and power – were viewed as narratives, rather than real phenomena with observable, objective consequences.

Some scholars, particularly in Europe, continued to address the traditional topics of corporate power and the state. Their focus was now primarily on globalization, however. Although I do not take issue with the increased focus on globalization, I would argue that to understand its effects on domestic politics, we must still study

the role of domestic actors, including (or especially) the business communities of individual nations. A network approach remains one of the most effective means of conducting this work.

## **Conclusion**

I have argued that despite their obvious differences, social network analysis is an approach that is fully compatible with the field of political economy. I have also suggested that work within political economy can benefit from the application of network techniques. To demonstrate this I have presented an overview of a body of research that has relied heavily on network analysis – the study of corporate power structures – whose questions grew out of debates within the field of political economy. Although much of the network-based work in this area increasingly diverged from the issues that concern political economists, the questions raised by these network analyses remain. To the extent that the compatibility of the two fields is not perfect, it reflects, I believe, the fact that there has been little cross-fertilization between the two approaches. Those who have worked continuously in the political economy field will no doubt be able to identify other topics that can be fruitfully handled using network techniques, well beyond those I have described here.

What of the prospect that network analysts will renew their attention to the study of corporate power? There is likely to be, if not resistance, then a lack of enthusiasm. This is not based on any particular hostility among network analysts toward power structure research. It is based more on the fact that those most committed to the study of networks are relatively agnostic when it comes to substantive area. On the other hand, an international study group has recently formed, led by Josep A. Rodriguez and Nicholas Harrigan, to focus on the relation between corporate networks and firm political behavior, and the group held a conference in Barcelona in 2006. This development indicates that the topic continues to resonate, at least outside North America.

One issue to which I have not spoken is the value of the study of corporate power to the field of economic sociology. Here too there has been limited interest. Scholars within economic sociology have directed attention to work on corporate power primarily to the extent that it shows that networks affect the behavior of firms. The possibility that these interfirm networks have political consequences appears to be beyond the scope of economic sociology, in much the same way that many topics within economic sociology have been seen by economists as beyond the scope of economics. One would hope, and expect, that economic sociologists would be more

open to a broad range of substantive topics than economics is (or was, in earlier years). On the other hand, it may be that those who study corporate networks and political power have done an inadequate job of selling their work to the community of economic sociologists.

As for the field of political economy, it appears that scholars in this area may perceive their work to be as heterodox within mainstream economic sociology as is the work on corporate power that I have discussed. If so, then at least one branch of network analysis may have faced the same predicament as has the field of political economy. This would appear to suggest that demonstrating the value of network analysis for political economy might do little to bring that field into the mainstream of economic sociology. On the other hand, a look at the table of contents of the second edition of the *Handbook of Economic Sociology* [Smelser and Swedberg 2005] indicates that topics related to political economy are well-represented. The list of areas covered in this volume suggests that the integration between political economy and economic sociology is well under way.

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## Political Economy and Network Analysis

### An Untapped Convergence

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Abstract: In recent years, sociologists have paid increasing attention to the economy. Two broad fields have emerged, both of which have roots in classical sociology: political economy and economic sociology. Political economy has focused primarily on the embeddedness of economic activity within larger political institutions. Economic sociology has focused primarily on the behavior of firms within product markets and the meanings that economic actors draw from the cultures in which they operate. I argue that the two approaches are fully compatible, and that network analysis has the potential to provide a synthesis between them. I illustrate this with a discussion of the field of power structure research—an area in which scholars have examined the relations between corporations and the state. I discuss the decline of power structure research, and argue that renewed attention to this area could provide a means of linking political economy, economic sociology, and the study of social networks.

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*Keywords: economic sociology, political economy, social networks.*

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