

4 Pluralistic politics and public choice

Theories of business and government responses to climate change

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Two political-economy theories – the “pluralistic politics” theory and the “public choice” theory – can advance the theoretical literature of environmental policy-making by revealing how the political economy of governmental institutions and policy processes affects the strategic agendas and choices of businesses, as well as their political activities. The theories focus on key features of businesses’ strategic behavior – namely, it is driven by *economic interests*, and it is developed and implemented in the context of *political institutions*. Both theories contribute to an understanding of businesses’ strategic behavior by linking the micro and macro levels of analysis.

This chapter reports quantitative data and cases about businesses’ responses to climate change issues to illustrate propositions derived from the theories. In the context of the principal concerns of this book, therefore, I examine domestic institutional determinants of responses to the environmental problem of climate change. My specific focus is business–government interactions. I thus aim to contribute to our understanding of environmental foreign policy by focusing on the role of business and government actions and their interactions, within an analytic framework that combines micro-level and macro-level concerns. See Chapter 2 by Barkdull and Harris in this volume for a broader theoretical approach.

I do not present definitive “tests” of the theories in the most rigorous sense of that term; rather, I present the theories as complementary theoretical perspectives which offer useful conceptualizations, insights and propositions about how businesses deal with the issues associated with global warming. The analysis uses both data and cases to indicate how the theories can be applied. I thus seek to advance both the conceptual literature about environmental foreign policy-making in general and the empirical-case literature on US responses to climate change issues in particular.

Overview of the theories

I use the term “pluralistic politics theory” to refer to a body of literature, particularly about the US political system, but also more generally about economically pluralistic and democratic countries. Issues regarding the

political-institutional context of businesses' behavior are central to the *pluralistic politics theory*. A diverse economic system is assumed to create multiple interests along industry lines and regional lines. Numerous organized interest groups, representing conflicting interests in the political system, share power with governmental institutions in coalitions on particular issues. Government policies consist of compromises; policies are outcomes of a bargaining, consensus-building process, including many governmental, industry and other organizations with diverse interests. A business or industry rarely gets all of what it seeks on a particular issue, because it must compromise with other political actors representing conflicting interests.¹

Environmental foreign policy, therefore, can be seen from this theoretical perspective as a compromise response to the diverse economic interests that are represented in a decentralized policy-making process. However, the interests and influence in the environmental foreign policy process are distinctive, as are the compromise outcomes. Such issue-specific patterns are taken into account in the pluralistic politics theory. In fact, a theme of that theoretical perspective is that business–government interactions and the influence of individual businesses and industry associations vary across issues. In order to determine the effects of government policy on business – or the effects of firms on government policy – in the context of the pluralistic politics theory, one must take into account the distribution of power across issues in a decentralized political system. The pluralistic politics theory assumes that interest groups are organized and politically active *across* institutional lines; such groups join coalitions involving executive and legislative actors, along with interest group organizations representing segments of industry and the public. The pluralistic politics theory further assumes that there are countervailing coalitions opposing one another on issues.

Much of the pluralistic politics literature has focused on the US. In addition to Harris (1998; 2000), see especially Bauer, Pool and Dexter (1972), Deardorf and Stern (1998), Destler (1995), and Destler and Balint (1999) on US trade policy-making. In a study of the effects of government “industrial” policies on firms’ strategies and competitive positions, Murtha and Lenway (1994) include “pluralist private enterprise” as one type of “public/private political economic interest intermediation system,” and they mention the UK, India, Canada and Italy, as well as the US, as examples. For early development of the intellectual underpinnings of the theory, see especially Bentley (1967), Dahl (1972), Schattschneider (1935), and Truman (1971).

The other theoretical perspective of the chapter – *public choice theory* – is closely associated with the names of a few scholars, particularly Buchanan and Tullock (1962), Downs (1957), and Olson (1965). The theory has been refined and applied by numerous scholars to diverse issues (Shepsley and Bonchek 1997; Weingast 1980). Applications to trade policy, for instance, include studies by Grossman and Helpman (1994) and Thornbecke (2000). Spar (2001: 221) has noted that the theory “rings true in many cases, especially those concerning the formation of trade policy in democratic states.”

Other studies have applied the theory to environmental issues, for instance, Bohm and Russel (1985) and Dijkstra (1999). For applications to other issues and extensions of the theory, see Becker (1983), Brown (1974), and DeClercq (1996).

Businesses' economic interests and political activities are among the central concerns of public choice theory, and they are contrasted with the economic interests of consumers (i.e., the public) in several respects. The assumptions of the theory concerning economic interests can be highlighted as follows: The distributions of economic interests are asymmetric for producers and consumers; while they are highly concentrated for producers, they are widely dispersed for the public. Therefore, whereas producers have strong economic incentives to be politically active to protect their interests in profits and jobs, the public has only small, marginal interests in the form of incremental price differences and thus little incentive to be politically active.

There is consequently an asymmetry in the benefits of political activity. The greater marginal economic incentives of producers induce them to undertake individual and/or collective political action to achieve their objectives. There is also an asymmetry in the feasibility and costs of political activity, according to the public choice theory. It is easier and cheaper for producers than the public to organize for political action because there are relatively small numbers of producers. As a result, government policy tends to favor the narrow economic interests of producers over the wider interests of the public.

In the context of the public choice theory, then, an analyst begins with businesses' economic interests, and then determines how the asymmetry of economic interests affects its political activities and government policies – which in turn affect its interests. The public choice theory thus tends to emphasize enduring structural features of the political economy and the role of the economic interests of businesses.² In some public choice analyses, ideological, institutional and macro-economic considerations are also included (Thornbecke 2000: 85). The inclusion of such additional factors, of course, expands the analytic scope of the public choice theory beyond its core. However, it also distracts from the central insight of the theory – namely, *the existence and consequences of asymmetries in the interests and political activities of firms and the public*. Table 4.1 contains a comparative summary of the two theories.

Data and case studies

The theories can be used to explain firms' responses to climate change issues and their interactions with government.^{2, 3} In particular, they can account for: variations in those responses among units within multinational corporations, variations among firms according to their home countries, variations within industries, and variations among industries. These data and case studies thus represent applications of both theories as explanations for numerous types of key variations in business responses to climate change issues.

Table 4.1 Summary comparisons of theories

<i>Points of comparison</i>	<i>Theories</i>	
	<i>Public choice</i>	<i>Pluralistic politics</i>
Firms' strategic interests	Economic interests, as reflected in shareholder stock value	Diverse economic and non-economic interests, as reflected in conflicting group preferences inside and outside the firm
Firms' strategic decision-making process	Analytic process of determining present value equivalents of expected future revenue and expense streams	Political process of building consensus among groups with conflicting preferences
Firms' role in government policy-making process	Revealing policy preferences to government officials	Building consensus with diverse political actors, which differ across issues and over time
Government policy outcomes in relation to firms' preferences	Consistent with firms' stated preferences and economic interests	Compromise outcomes of consensus-building

Conflicts in multinational corporations

Large multinational firms with affiliates in many countries are particularly prone to experience centrifugal tendencies as they try to adjust to foreign market and non-market conditions. This is a central theme of much of the international strategy literature based on the "global integration-local responsiveness" framework (Bartlett and Ghoshal 1989; Prahalad and Doz 1987; Tallman and Yip 2001; also see Boddewyn and Brewer 1994). In this framework, there are inherent tensions between the economic pressures on firms to globalize their operations in order to take advantage of economies of scale, on the one hand, and the political pressures exerted on firms by governments to be responsive to local political, cultural and economic conditions. Some firms conform more closely to the public choice theory of centralized control, while others conform more closely to the pluralistic politics theory of decentralized, conflicting groups, on the other.

Hierarchical, globally integrated corporations

Corporations with centralized, hierarchical structures and strategies driven by concerns for global integration tend to adopt relatively monolithic approaches to global warming issues (as is consistent with the public

choice theory). For instance, ExxonMobil prohibited officials of its European affiliates from attending climate change conferences for many years because their mere attendance would have undermined the parent corporation's position that global warming was not a problem.

Decentralized, locally responsive corporations

Corporations with decentralized structures and strategies driven by responsiveness to localization pressures tend to adopt relatively varied approaches (which is consistent with the pluralistic politics theory). Cases that illustrate this tendency include a split between Volvo of Sweden and its US parent Ford. A high-level executive of Volvo announced that it still supported the Kyoto Protocol in mid-2001, while its parent Ford opposed it (*Wall Street Journal* 2001: B1). Shell Oil offers further evidence of centripetal tendencies within a multinational corporation and local responsiveness on climate change issues; it is often regarded as more like a confederation than a tightly controlled and centralized firm. A split within Shell between the US affiliate of the parent corporation, Royal Dutch Shell of the UK and the Netherlands, led Shell of the US to lag behind its parent of the UK and Netherlands in withdrawing from the Global Climate Coalition, which opposed the Kyoto Protocol.

Such cross-national conflicts among the units of multinational corporations are consistent with the pluralistic politics theory; in both instances, local affiliates were responsive to local political conditions – widespread support for the Kyoto Protocol in Sweden, the Netherlands and the UK, and at the same time opposition in the US. In yet another case, among auto firms, there were cross-national conflicts in DaimlerChrysler (before Daimler sold Chrysler); a mixture of ambivalence and contradictory opinions emanating from Daimler and Chrysler officials could be attributed in part to the not yet fully integrated intra-firm differences in corporate cultures and *home countries* of the two “merging” firms at that time (Hamilton 2003).

Home-country, intra-industry differences

Differences in corporations' responses within industries are related to the parent corporations' home-country political-institutional setting (as in the pluralistic politics theory). Among the four “super-major” oil corporations, the two European-based corporations – BP in the UK, and Shell in the UK and Netherlands – have been more involved than their US rivals ExxonMobil and ChevronTexaco – in the climate change programs of environmental NGOs. Similarly, US-based firms in commercial banking, investment banking, insurance, the automotive industry and others have tended to be laggards on climate change issues compared with their foreign rivals in Europe, Japan and, in some instances, Canada.

Industry associations and intra-industry differences

Intra-industry differences are sometimes reflected in the positions of industry associations on government policy issues. For instance, there are some energy industry associations that support mitigation measures: the American Council for an Energy Efficient Economy and the US Council for Energy Alternatives. Also within the US, some electric utilities publicly endorsed *mandatory* CO₂ emissions limits for their industry, while others opposed them, before the Edison Electric Institute did so for the industry as a whole. The evidence on industry-specific associations thus reflects important differences within industries, as well as countervailing power among them – and it is thus consistent with the pluralistic politics theory.

At the same time, some issue-specific organizations have been opposed to mandatory mitigation efforts. For several years, the Global Climate Coalition (GCC) was a major lobbying organization against the Kyoto Protocol, and it disputed the consensus view of scientists, including the Inter-Governmental Panel on Climate Change. In the late 1990s in the US, a small number of large producers represented in the Global Climate Coalition virtually dominated the “debate” over climate change issues, particularly in regard to the issue of US ratification of the Kyoto Protocol, and then beginning in January 2001, an even smaller group of producers had access to the White House in the early months of the Bush administration when it announced its opposition to the Kyoto Protocol and also its opposition to domestic limits on carbon dioxide emissions. In short, an intense lobbying effort by a small and highly motivated group of producers enabled it to achieve the kind of government policies it wanted – a process and result consistent with the public choice theory.

However, within key industries some corporations joined the GCC earlier and left later than their rivals, and some did not join at all. Within the auto industry, Ford left the GCC during 2000; then DaimlerChrysler left a month later; and General Motors subsequently left. On the other hand, Japanese and other non-US auto corporations never joined. Within the oil industry, Shell and BP left before Texaco, which was the first US-based corporation to leave (DiPaola and Arris 2001: 255–6, 263–4). The US affiliate of Shell remained a member for a matter of months after the parent corporation Royal/Dutch Shell of the UK and the Netherlands withdrew. ExxonMobil was a key participant throughout. There is evidence again, therefore, of a pattern in the intra-industry differences, namely, non-US corporations were less likely to join and faster to leave if they did join – a home-country pattern consistent with the pluralistic politics theory. Thus, in the intra-corporation differences noted in the previous subsection as well as this subsection, we have seen evidence of home-country effects on corporations’ strategic behavior. International explanations of differences are evident in both intra-corporation and intra-industry differences.

Inter-industry differences

Both theories predict differences across industries in corporations' responses to global warming issues, though for different reasons. The public choice theory emphasizes the importance of expected revenue and expense streams to corporations as they calculate their economic interests and determine their strategic objectives on issues that confront them. In the case of global warming, the industries that are particularly dependent on fossil fuel prices in either their revenue or expense streams are likely to oppose regulatory action to mitigate global warming, as are industries where other types of greenhouse gas emissions are particularly intensive. Thus, corporations in the coal, auto and oil sectors would be expected to be among the opponents, while industries (e.g. semiconductors) where greenhouse gas emissions are not so problematic would be expected to be more supportive of mitigation efforts, as would the casualty insurance industry which suffers losses from more frequent and serious severe weather events. Industry differences are also consistent with a pluralistic politics theory, but such a theory further emphasizes differences across corporations within industries because of differences in the political pressures that they encounter from within and without the corporation.

Differences among industries in strategic responses

The two theoretical perspectives offer two different views of why there are differences among industries in their strategic responses to climate change issues. The public choice theory suggests that differences across industries in corporations' strategic responses result from differences in how revenue and expense streams in the industry are affected by global warming or its mitigation. The pluralistic politics theory suggests that differences across industries in corporations' strategic responses result from differences in the political pressures they encounter.

The industry-specific data in Table 4.2 provide evidence of differences across industries in their responses to the US government's voluntary "Climate VISION" program, which was announced in February 2003. The program formally and directly involves participation by industry associations (US Department of Energy 2003). The data document variability across industries in how they approach issues about greenhouse gas emissions. There are two notable patterns in the data in this respect. First, there are differences in the types of greenhouse gases of interest; whereas most industries focus on carbon dioxide, some such as the aluminum, magnesium and semiconductor industries narrow their concern to other types of greenhouse gases (PFCs, HFCs, SF6). Second, the data indicate which industries are willing to state targets to reduce *absolute* emissions levels, or only reduce *relative* levels that relate emissions to an indicator of business activity and *typically entail actual increases* in the absolute levels of emissions. The

Table 4.2 Variations across industries in voluntary targets under “US Climate VISION Program”

<i>Industry/organization</i>	<i>Members: number of firms</i>	<i>Members: per cent of industry</i>	<i>Type of emissions or other focus^a</i>	<i>Reduction target</i>	<i>Base year</i>	<i>Target year</i>
Oil & Gas API	na	Over 60% of US refining capacity	Aggregate energy efficiency of US refinery operations	10%	2002	2012
Coal NMA	na	70% of US primary electricity fuels	Coalmine methane, carbon sequestration	10% increase in efficiency in systems in NMA-DOE Allied Partnership	2002	2012 – date of “projected” reductions of GHG by 1 mmt annually
Electricity EPIC ^b		100% of US electricity production	“Carbon Impact”	3–5%	2002	2012
Cement PCA	na	More than 95% of US cement production	Carbon dioxide emissions	10% per ton of cement	1990	2020
Steel AISI	33	Nearly ¾ of US steel production capacity	Sector-wide average energy efficiency	10%	1998	2012
Aluminum AA/VAIP	na	na	PFC emissions	“further reductions”	2002	2005
Magnesium MC/IMA	na	100% of US primary magnesium production, 80% of US casting and recycling	SF6	Eliminate	–	2010

Table 4.2 (continued)

<i>Industry/organization</i>	<i>Members: number of firms</i>	<i>Members: per cent of industry</i>	<i>Type of emissions or other focus^a</i>	<i>Reduction target</i>	<i>Base year</i>	<i>Target year</i>
Semiconductors ASI	22	Over 70% of sector emissions of HFC, PFC, SF6	HFC, PFC and SF6 emissions	10%	1995	2010
Chemicals ACC	na	90% of US chemical industry production	Overall GHG intensity	18%	1990	2012
Motor vehicles AAM	na	Over 90% of US vehicle sales	GHG emissions from manufacturing facilities	10%	2002	2012
Railroads AAR	na	na	GHG intensity of Class 1 railroads	18%	2002	2012
Forestry AF&PA	na	na	GHG intensity	12%	2000	2012

Notes:

^a Several associations have additional, less specific goals, such as developing management programs to facilitate GHG reductions or participating in US EPA or US DOE partnership programs.

^b The EPICI consists of seven organizations – EEI, NRECA, APPA, LPPC, EPSA, NEI, TVA – whose commitments vary but are typically general and/or involve increases in use of their particular type of electricity generating capacity, including both nuclear (NEI and TVA) and renewables (APPA, LPPC).

aluminum, magnesium and semiconductor industries are in the former group, while the “energy efficiency” targets of the oil and coal industries and the “GHG intensity” targets of the railroads put them in the second group. Further, the motor vehicle industry association is careful to note that its target specifically concerns emissions from “manufacturing facilities,” and by implication not emissions from its products, i.e. motor vehicles.

The data in Table 4.2 indicate differences across industries that are consistent with both the emphases of the public choice and pluralistic politics theories on industry group behavior. However, these data do not enable us to distinguish between the roles of economic interests as in the public choice theory or the political processes as in the pluralistic politics theory. We thus turn to evidence on the activities of industry associations for further information about inter-industry differences in corporations’ behavior.

Industry associations

The two theories also offer conflicting perspectives on the behavior of industry associations. The public choice theory suggests that industry associations representing producers in political processes tend to prevail and obtain government policies they prefer. The pluralistic politics theory suggests that industry associations tend to form countervailing coalitions representing conflicting interests on any given issue.

The positions and activities of a variety of industry associations are pertinent to these propositions, as reflected in the following five cases. First, in July 2000, the US Chamber of Commerce and 25 other industry groups petitioned the US Environmental Protection Agency (EPA) to oppose a proposal under consideration for the EPA to limit carbon dioxide as a greenhouse gas. This industry petition was a response to an earlier petition in October 1999 by environmental organizations that the EPA should apply the Clean Air Act to greenhouse gas emissions (DiPaola and Arris 2001: 290). Subsequently in the summer of 2001, in a different political context, another industry association, the Small Business Survival Committee, lobbied the US government to resist European pressures to adopt controls on greenhouse gas emissions. The EPA, at the direction of the White House, accordingly excluded carbon dioxide emissions by decisions in 2001 and 2003 – a set of facts consistent with the public choice theory.

Second, the American Petroleum Institute (API) has been a consistent opponent of mitigation measures. For instance, the API (2001) challenged the analysis by the US National Academy of Sciences (NAS) (2001) of the Third Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) (2001), because both concluded that there is a scientific consensus on the existence of a global warming problem and that it results in substantial part from human activities. The US administration adopted the critical position of the API, despite the fact that the NAS report was an official response by a scientific panel to a request by the administration to

evaluate the IPCC work. In short, the administration accepted the position of an industry association rather than the position of a panel of independent government-appointed scientists – an outcome consistent with the public choice theory.

The third case, involving a comparative international perspective on the positions and activities of major business organizations, is more in line with a pluralistic politics interpretation of industry associations. The International Chamber of Commerce (ICC) and the World Business Council for Sustainable Development (WBCSD) have adopted different positions on climate change issues. The ICC, whose positions on issues are often heavily influenced (even determined) by US preferences, has been opposed to the Kyoto Protocol; the WBCSD, which has more of a European orientation, has been supportive.

Fourth, within the United States Council for International Business (USCIB), which represents several hundred large multinational corporations, there have been conflicts between US-based and European-based corporations, with many of the latter being less supportive of the Council's hostility to the Kyoto Protocol. International differences which are consistent with the pluralist theory, therefore, are evident within industry associations as well as among them.

Finally, the formation of the US Climate Action Partnership (US CAP) reflected the pluralistic nature of US business. With a memberships of more than 25 firms, the US CAP membership includes many major corporations such as Alcoa and GE. Yet, within many individual industries, there are leaders on climate change issues who have joined but there are also major firms within those same industries that are climate change laggards and have not joined. For instance, within the insurance industry, AIG belongs but Allstate does not, within the oil industry, ConocoPhillips belongs but Exxon Mobil does not, and among soft drink firms, Pepsi is a member but Coca-Cola is not.

Implications

The principal implication of the analysis is that environmental foreign policy – certainly in the case of climate change – needs to take into account the economic interests of business and the interactions of business and government within national institutional settings. Two theoretical perspectives – pluralistic politics and public choice – offer insights into the patterns of those business interests, how they influence business strategy and business political activity, and how business interacts with government. There are both some underlying similarities in those patterns in environmental policy-making and policy-making in other issue areas, but there are also distinctive patterns associated with specific issues. Since the theoretical perspectives, as presented in this chapter, are both theories of political economy, the key implications naturally involve both business and government behavior, and their interactions, in environmental foreign policy-making.

For climate change – the environmental foreign policy issue of specific interest in this chapter – there are three key implications that can be derived from the analysis: The first concerns *varying attributes of issues*, in particular, the occurrence of market failures and the role of government intervention in addressing them; the second concerns linkages between the *micro and macro levels of analysis*; the third concerns the importance of *cross-national differences* in the political-economy and institutional context of environmental decision-making, including for multinational corporations as well as for governments.

Attributes of issues

The issues related to climate change are similar to other environmental issues confronting corporations in at least one important respect that affects the political-economy context and thus the nature of the issues corporations face. As with other environmental issues, because climate change issues inherently involve externalities and market failures, there is an argument for government intervention on the grounds of economic efficiency. The government intervention can consist of taxes and/or subsidies and/or other regulations. These three types of government policies therefore pose recurrent issues for corporations.

An additional feature of the policies that are being developed to address climate change, however, is that governments are creating new markets – specifically markets for greenhouse gas emission credits. This market-based approach is furthest advanced in Europe, in the form of the EU Emissions Trading Scheme (ETS). However, in the US a cap-and-trade system known as the Regional Greenhouse Gas Initiative (RGGI) of ten northeastern states began operation in 2008; and another regional cap-and-trade organization including several western US states and Canadian provinces was also being formed. There are also voluntary market mechanisms, such as the Chicago Climate Exchange, in operation in the US. As a result of these developments, the institutional context of the strategic issues corporations encounter is becoming more internationally complex, as well as more highly developed.

Micro and macro levels of analysis

Together, the two political-economy theories link macro level features of the political-economic environment of corporations to the micro level of corporations' behavior. The theories offer complementary explanations of corporations' strategic behavior. The public choice theory focuses on corporations' core economic interests and the structural features of their economic and political circumstances that tend to be enduring. The assumption of the public choice theory that corporations' strategic behavior is driven by their economic interests and thus the present value equivalent of

their future revenues and expenses is an appropriate starting point for understanding corporations' responses to climate change issues.

Further, a key insight of the public choice theory is that it focuses on a core feature of climate change issues – namely, the asymmetry of the distribution of costs and benefits of inaction or of mitigation measures concerning climate change. There are small numbers of large producers with an incentive (and the financial means and political access) to be active in efforts to prevent mitigation measures. And they were successful, at least in the US, for many years. Major industry associations were able to block government mitigation efforts.

However, over time there has been increased conflict within industries and increased political activity by countervailing industry and environmental organizations. In that respect, it can be said that the political economy of business action on climate change issues in the US has shifted from a period of correspondence with the public choice theory to a period of increased correspondence with the pluralistic politics theory. Yet, the outcome and implications of changes of the positions of individual corporations and concomitant shifts in the coalitions remain to be seen.

Cross-national differences

The linkage between the macro and micro levels becomes particularly evident in a cross-national comparative analytic perspective. The macro-level political-institutional context of European and Japanese corporations – where there is widespread public and government support for climate change mitigation measures – tends to lead corporations to respond strategically at the micro level in ways that are congruent with the political pressures in their national environments. At the same time, US-based corporations are generally less supportive of mitigation measures, reflecting the relatively less concerned and activist political circumstances on climate change issues in that country – though this tendency for US-based firms to be laggards was diminishing by 2008 as a few major US corporations such as WalMart began to take action on climate change. Theorizing about corporations' behavior on environmental issues, therefore, should not ignore the effects of cross-national differences in political-institutional contexts on inter-corporation differences in parent corporations' behavior.

The cross-national differences, furthermore, are not only evident in comparisons among parent corporations with different home countries; they are also evident in cross-national conflicts between parent corporations and their foreign affiliates or between internationally merged corporations. Because a distinctive feature of multinational corporations is that they have physical assets in at least two countries, with a parent corporation in one country, and foreign subsidiaries in other countries, they are inevitably subject to the different and often conflicting pressures of different national political economies and institutional contexts. Their strategic issues and responses are often directly shaped by these cross-national differences.

Theories about the issues and decisions of corporations concerning environmental issues must be explicit about the nature of multinational corporations. They face intra-corporation conflicts that stem from their presence in multiple political-economies, and thus explanations of how corporations respond to the issue need to take into account cross-national differences in values and attitudes on the underlying issues – in this case, the protection of the environment, health, safety and wealth distribution issues posed by climate change.

Conclusion

Two developments at the international climate conference COP-13/MOP-3 in Bali, Indonesia, in December 2007 make the explicit and systematic inclusion of the emphases of this chapter – namely economic interests, business strategy and business-government interactions – essential elements in explanations of policy-making on climate change issues. First, *sectoral* approaches were placed on the agenda for negotiating a new post-2012 multilateral climate regime. This means that the post-2012 international climate regime may include agreements about the greenhouse gas emissions, production processes and other operational aspects of specific industries such as steel, electric power, automobiles, aviation, maritime shipping, and others. Understanding the political economy of policy-making on these agreements will require the kinds of conceptual and empirical concerns reflected in this chapter.

A second relevant development at the Bali climate change conference was an informal meeting of *trade* ministers – the first held in the context of a climate conference and thus a symbol of the increasingly widespread recognition that climate change issues and trade issues intersect in many ways. Thus, the analysis of the political economy of trade policy-making overlaps with the political economy of climate policy-making – a subject that would take us beyond the limits of this chapter but which is under active consideration in other on-going research projects (e.g. Brewer 2007). Future studies of US and other countries' responses to climate change issues will therefore need to broaden and deepen the analysis of the political economy of those issues.

Notes

- 1 There are consistencies and parallels between the pluralistic politics theory and the stakeholder theory of business strategy (Donaldson 1999; Donaldson and Preston 1995; Freeman, 1984; Janwaha and McLaughlin 2001; Jones and Wicks 1999). Both theories assume that firms' strategies are based on the diverse interests and preferences of many groups. The stakeholder theory builds on the work of Cyert and March (1963) and Simon (1957). The theory accordingly views "the corporation as a coalition of a number of interests including shareholders, managers, and other employees;" corporations in the stakeholder theory are thus

presumed to “pursue a wide range of goals. This diversity of goals is a reflection of the variety of different interest groups that make up the firm” (Grant 1991: 16). By extension, one can add the array of governmental and non-governmental organizations that represent those group interests outside the formal organizational structure of the firm.

- 2 There are consistencies between the public choice and the shareholder wealth-maximization theories: both focus on the economically rational motivations of corporations’ executives. They assume that economically rational alternatives for the firm are ascertainable on the basis of market forces that include the preferences of consumers and competitive conditions in the industry. In this context, a financial approach to shareholder value-maximizing choices addresses issues about the time periods and risks in strategic decision-making by focusing on present value calculations. Thus, in the context of the shareholder value maximization theory, “the purpose of strategy is to increase the long-term profitability of the corporation ... By maximizing the present value of the firm, management maximizes the wealth of the owners of the firm” (Grant 1991: 17).
- 3 The chapter builds on and extends the previous work on U.S. climate change policy-making in Harris (1998; 2000) in two respects: first, by comparing the “pluralistic politics” theory, which is central to that work, and the “public choice” theory; and second, by focusing specifically on the responses of business and their interactions with government. Several of the chapters in Harris (2000) discuss the domestic politics of U.S. policy-making and thus provide useful complementary reading for the present chapter; see especially Bryner (2000), Harrison (2000) and Park (2000). The latter provides an historical narrative of the evolution of U.S. government climate change policy, including brief references to the role of multinational corporations.

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