

A Negotiated Economy? Public Regulation of the Manufacturing Sector in Denmark

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The relations between state and market have been the object of a considerable scholarly interest for decades. In the European context interest in neo-corporatism (Schmitter 1974) was followed by meso-corporatism (Cawson 1986) and network theory (Wright 1988). Scandinavian political science partly followed the European tradition and partly developed its own concepts emphasizing sectoral and segmented policy-making and the blurring demarcation between the public and private sector (for an early overview see Heisler 1979).

One of the distinct Scandinavian developments is that of the *negotiated economy*.¹ The concept was originally introduced by the Norwegian Power-Study (e.g. Berrefjord 1978, 155). The concept had an intuitive reference to important developments in state-market relations: the tremendous growth in the public sector and – first of all – the growing political intervention in market transactions seemed to impose a political logic on market actors. The original studies pointed to this development:

We have seen a development towards a more detailed negotiated economy in which conditions for market transactions and their effects are negotiated – in short in which market transactions are framed by administration on “both sides” (Berrefjord 1978, 155, translated by the author).

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We have seen a development towards a more detailed negotiated economy in which conditions for market transactions and their effects are negotiated – in short in which market transactions are framed by administration on “both sides” (Berrefjord 1978, 155, translated by the author).

Moreover, the concept of a negotiated economy seemed to overcome some of the deficiencies of the concept of corporate pluralism that never really gained a foothold in Scandinavia due to its lack of theoretical and empirical validity as a macro concept: the negotiated economy did not presume a fundamental hierarchical and authoritarian ordering of society in general and organized interests in particular.

For years the concept of the negotiated economy loosely referred to the development pointed out above. It was used in a few empirical studies (e.g. Midttun 1988; Berrefjord & Hernes 1989), but no distinct political theory seemed to be built on the concept of the negotiated economy.

Later – and recent – versions of the negotiated economy, however, developed into a macro theory of society (Nielsen & Pedersen 1988; Nielsen & Pedersen 1988a; Berrefjord, Nielsen & Pedersen 1989; Pedersen et al. 1992). In that version the negotiated economy has replaced the mixed economy: different types of private, semi-private and public institutions contribute to the development of mutually accepted socio-economic ideologies that confuse the coordination of economic and political behaviour in society. Preferences are manipulated in order to evoke certain attitudes in accordance with generally accepted societal problems. The *definition* of the negotiated economy is:

... an organizational structuring of society, where an essential part of the allocation of resources is conducted through institutionalized negotiations between independent centres in the state, organizations (. . .) and corporations (Nielsen & Pedersen 1988, 82).

This article tests the negotiated economy empirically on the Danish manufacturing sector. It will be shown that the concept can be useful to understand some aspects of state-market relations for some firms, but that the concept cannot meaningfully be used as a macro concept, as it has been developed recently.

Two Hypotheses

If the claim of a negotiated economy refers only to the fact that negotiations play an important role in advanced industrial states, there is nothing new to it. Negotiations between organized interests and state actors – in many cases even with the integration of organizations into political and administrative decision-making processes – have been a central trait of Scandinavian, and for that matter European, political systems during the post-war period.

The core argument in the negotiated economy is a mix of market and political transactions in the behaviour of individual firms. Berrefjord & Hernes (1989) see industrial concentration, increased use of negotiations

between firms and an increase in the contacts between firms and public authorities as correlated. The pervasiveness of the mix of political and market transactions is an empirical question, but cannot be tested directly. To test the validity of the negotiated economy, two hypotheses – deduced from the general thesis of the negotiated economy – are tested in a survey of Danish manufacturing firms.² Both hypotheses follow Berrefjord & Hernes's (1989) conceptualization of the negotiated economy, but contrary to Berrefjord & Hernes they aim at testing the negotiated economy for the manufacturing sector as such – i.e. not only in relation to large firms.

If the claim of a negotiated economy is to be sustained, at least one of the two following hypotheses should be supported by confrontation with data: the first thesis emphasizes the *importance* of public regulation in transactions within the firm and between the firm and its environment: a significant proportion of firms shall consider public regulation important for their market transactions, the firms shall enter into an active interplay with the public authority system and they shall be heavily dependent on the outcome of this interplay. It follows that public regulation is responded to in a strategic and goal-oriented way and that the political environment of the individual firm is individually negotiated and a *conditio sine qua non* in understanding market behaviour.

The second thesis emphasizes the extent to which public regulation is used in a strategy of pursuing *individual advantages*. We will accept the claim of a negotiated economy if a significant number of manufacturing firms are able to use public regulation to pursue individual market advantages and if these advantages originate from negotiations between firms, organizations and state actors.

Before the test of the hypotheses some remarks on the empirical area of investigation.

Public Regulation of Industry

Since the 1960s the public sector has shown a remarkable growth in all OECD countries, especially in the Scandinavian countries. Growth has been *visible* by a dramatic rise in the outlays of government including the growth of public service production. This development has intensified interactions between state and market actors: the public sector is a major consumer of goods and services from the private sector, and private business demands services from the public sector. The intensified interaction is also expressed in industries in which firms are dependent on knowledge, user competences, etc., in the public sector, by way of example in the pharmaceutical industry. In some sectors these interactions might be relevant in a negotiated economy perspective. The term *bureaucratic-industrial*

complex can be used to describe relations between firms and political actors in which market conditions and market transactions are negotiated to the mutual benefits of involved actors (but not necessarily to the benefit of the general public, e.g. the taxpayers).

This article concentrates on the growth of the *invisible* public sector, i.e. the regulating state (cf. Christensen 1991). It is more difficult to assess the growth of the invisible as compared to the growth of the visible public sector. The two world wars and the subsequent years were periods with a pervasive regulation of trade and production. There is, nevertheless, hardly any doubt that public regulation of business has increased over the last three decades. This is mainly due to the dramatic growth in the new "social" regulations³ of the environment, working health and hazards, and protection of consumers and disadvantaged groups on the labour market. The wave of social regulations swept over business at the end of the 1960s and in the first half of the 1970s. They were not, as predicted by Downs (1972), an over-night phenomenon. On the contrary, regulations in these areas, especially those regulating the environment, seem to be strengthened and backed up by an intense public and political support.

This increased regulation is interesting in several respects. First, in 1971 Stigler (1971) claimed that public regulation was protective for business and therefore demanded by the regulated. This can hardly be true for the new social regulations that were imposed on business, albeit with different levels and types of resistance in the OECD countries. New social regulations are regarded as the most constraining of all regulatory measures by business leaders (Christiansen 1993). Second, some of these regulations are characterized by an extensive use of discretion in the implementation phase. This opens up the possibility of contacts and negotiations between state and local bureaucracies on the one side and individual firms on the other. The empirical question to be answered is how, to what extent, and with what consequences the growth in number and pervasiveness of public regulation affects the relations between firms and the public authority system. The theoretical question to be pursued is to what extent these relations can be seen as part of a negotiated economy.

An Individually Negotiated Political Environment?

The survey draws a differentiated picture of the way public regulation is experienced and handled by individual firms.

A third (35 percent) of all CEOs consider public regulation to be important to their firm and a significant proportion (29.2 score in percentage difference) of CEOs are in agreement with the claim that "Today it is just as important for a corporate manager to have knowledge on public policy

as on corporate management". At first glance these results seem to support the first hypothesis on the importance of public regulation. However, going deeper into the way public regulation is perceived and handled, the hypothesis is not supported:

Most firms (i.e. CEOs) perceive their political environment as *chaotic*. They do not have a clear picture of public demands on the firm, and they do not have a clear picture of the structure of the authority system that they confront. The political environment is mixed with a generally chaotic environment of the individual firm. This should not be surprising: public regulation consists of many different types of rules concerning a number of aspects of business structure and behaviour. The division of labour in the firm allows public regulation to penetrate the firm at various levels. Different people are occupied with different parts of the regulatory environment. Finally, it should be emphasized that public regulation affects firms in ways that are not always clear to the individual firm, for instance if regulation affects the economic environment of firms and thus affects the firm only indirectly. Some firms – primarily large firms and/or firms heavily strained by regulation – have a *partial* or *holistic* perception of their regulatory environment. A partial perception refers to firms which have a clear picture of public demands in limited areas, by way of example regulation that concerns the environment or even just emissions to water or air. Often a learning process follows the politicization of aspects of the firm's behaviour, turning a chaotic perception of the regulatory environment into a partial or holistic one. It cannot be denied, however, that most firms perceive and handle their regulatory environment on an *ad hoc* basis.

Public regulation introduces an element of *insecurity* to manufacturing firms. It is partly a consequence of the propensity to handle the political environment on an *ad hoc* basis, partly a consequence of the changing nature of the political environment. In any way, firms live in a constantly changing political environment. The great emphasis on insecurity measured in the survey and the interviews is perhaps a response to the unstable parliamentary conditions in Denmark in the preceding ten years, not least in areas like environmental regulation. No less than 88 percent of all firms expressed a willingness to exchange burdensome regulation for more security, even if that meant a more constraining intervention in market transactions.

Asked about the most severe problems in relation to public authorities, the problems most often mentioned were "too much bureaucracy" (mentioned by 23.6 percent of all firms in an open question), "slowness and insecurity" (22.3 percent), "lack of understanding and cooperation" (19.4 percent) and "wrong policies" (16.3 percent). When the state regulates, it is on conditions that are perceived to be incomprehensible by the regulated firms.

Table 1. Intensity of Non-routine Contacts in Relation to "Cases in Progress" (N = 405). Average Number of Contacts in Preceding Year.

	Size of the firm*			All**
	Small	Medium	Large	
Intensity***	0.76	1.46	2.68	0.92

* Small firms: 6–49 employees, medium-sized firms: 50–199 employees, large firms: more than 200 employees.

** Weighted.

*** All differences between means are statistically significant at the 0.05 level.

How, then, is regulation handled? The questioned firms were asked to state their political contacts in relation to "cases in progress", i.e. cases in which specific regulatory demands were made on the firm. Out of all the firms, 48 percent stated that they had initiated at least one non-routine contact within the preceding year. The intensity of contacts is indicated in Table 1. Large firms have a significantly higher intensity compared to small and medium-sized firms. This correlates with another finding: large firms perceive themselves to be much more strained by regulation than small firms despite the obvious fact that their organizational capacity to handle public regulation is significantly higher compared to that of small firms.

When asked about the content of their contacts, two regulation areas stand out. Contacts primarily concern construction projects and the inner and outer environment. Building permits are often complex and involve a number of contacts between public authorities and firms. The importance of environmental regulation in the contacts might be seen as a validation of the claim that new social regulations have changed the political environment of manufacturing firms. Very often firms and authorities are bargaining about the precise implementation of public regulation. The bargaining process does not only concern technical matters, but often involves questions of costs to and political legitimacy of the firm and the effectiveness and legitimacy on the part of the involved public agency.

The role of public regulation in the daily life of Danish CEOs should not be exaggerated. As indicated in Table 2, more than half of all CEOs questioned spend less than one hour weekly on questions directly or indirectly connected to public regulation and more than three-quarters spend less than two hours. In large firms time spent on these problems is significantly higher, but even in large firms only a small minority of directors spend more than five hours per week on public regulation.

There appears to be a considerable discrepancy between the theoretically stated willingness to intervene in political and administrative decision-making processes and actual behaviour.

Table 2. Managing Directors' Weekly Time Consumption on Public Percent*.

Hours per week:	Size of the firm			All***
	Small	Medium	Large	
< 1 hour	56.7	45.4	39.6	54.4
1–2 hours	20.5	28.9	29.2	21.9
3–5 hours	16.5	17.8	21.7	16.9
6–10 hours	3.1	5.3	5.7	3.6
11–20 hours	1.6	0.7	2.8	1.6
> 21 hours	1.6	2.0	0.9	1.6
Total	100.0	100.1	99.9	100.0
(N =)	127	152	106	384

* "How many hours per week do You work with problems directly or indirectly connected to public regulation?"

** Weighted.

Directors show a remarkable political activity in theory. The vast majority (72.8 percent) of directors find it legitimate to interfere in decision-making processes directly affecting their own firm. This is not surprising, but most CEOs (59.6 percent) also find individual intervention in the political process legitimate in questions which do not directly involve the individual firm, but industry as a whole, while 48.8 percent even find such individual intervention legitimate when the issue in question does not directly interfere in industrial matters, but in the Danish society as such. Such more general questions – relating to collective benefits to business – would traditionally be a matter for interest organizations – not individual firms.

In practice, however, CEOs are much less inclined to individual political intervention. In most cases firms comply with regulatory demands engaging only in technical discussions with bureaucrats. Non-routine contacts to politicians or bureaucrats are typically focused on very narrow questions. As most firms perceive their political environment to be chaotic, they respond on an *ad hoc* basis when problems arise. Only a minority of firms pursue an active strategy of systematic scanning of their political environment. Most firms pursue a reactive strategy of "good relations" to their political environment.

An important question is the role played by interest organizations in relation to the implementation of public regulation. In the traditional picture of state-market relations, organizations have more or less of a monopoly on representing the interests of firms vis-à-vis public authorities. To what extent is this picture valid in relation to public regulation?

When asked in general – i.e. when not relating to any actual cases – CEOs do not in general accept a monopoly held by interest organizations. It appears that 40.6 percent of all CEOs find it legitimate that firms

intervene in political and administrative decision-making processes without involving their organization.

In this question there is a good correspondence between attitudes and behaviour. Interest organizations are involved in contacts in relation to cases in progress in less than half of all contacts (40.4 percent). It might be surprising that large firms are more inclined to involve organizations in non-routine contacts (59.4 percent) compared to small firms (36.8 percent). Since the organizational capacity to handle political questions is undoubtedly greater in large firms, it is reasonable to interpret the differences in the inclination to involve organizations in contacts with public authorities as a result of tactical considerations: large firms are more vulnerable in their handling of political problems. They are more visible and intervention in political processes might be viewed with suspicion by political decision-makers or by the public in general. It is probably also for this reason that large firms are more inclined to pursue a strategy of "good relations" with public authorities.

The first hypothesis deduced from the claim of the negotiated economy says that individual firms handle public regulation in a strategic and goal-oriented way by entering into a negotiated political environment with a strong impact on market behaviour. On the one hand it has been shown that public regulation is considered important by a significant proportion of firms and that the implementation of public regulation involves negotiations between firms and public authorities; on the other hand it has been shown that, in general, public regulation is handled case by case, that public regulation plays only a minor role in the daily work of the CEO and that most firms are only marginally dependent on a negotiated political environment.

For a limited number of firms the interplay with the public authority system causes a heavy involvement and a heavy dependence on the outcome of negotiations. In these cases the claim of a negotiated economy might be sustained. The prevalence of such relations is, however, limited to heavily regulated sectors of the manufacturing sector, by way of example the ship-building industry or power-plants (e.g. Midttun 1988), or to firms where for one reason or another market performance is heavily dependent on negotiations between the firm and the public authorities. An example of the last type – found among the firms interviewed – is a medium-sized firm protected by the local authorities from regulatory requirements that would close down the firm, were they implemented fully. The point is, however, that only a minority of firms live in such a regulatory environment. For most firms the political environment is more or less chaotic, firm responses to regulatory impositions are *ad hoc* responses, and the level of involvement of the firm in regulatory questions is low.

The relatively low involvement of interest organizations in the mediation

Table 3. Intensity of Non-routine Contacts in Relation to Proposed Regulation. Average Number of Contacts in Preceding Year (N = 405).

	Size of the firm			All*
	Small	Medium	Large	
Intensity**	0.28	0.30	0.83	0.30

* Weighted.

** Differences in means between small and medium-sized firms are not statistically significant.

between firms and public authorities could at first glance seem to support the claim of the negotiated economy. This is not the case, however. The relatively minor role played by interest organizations is due to the specificity of the problems negotiated between firms and bureaucrats.

Public Regulation and the Pursuit of Corporate Advantages

The second hypothesis deduced from the concept of the negotiated economy emphasizes the use of public regulation in the pursuit of individual advantages. Berrefjord & Hernes (1989) emphasized the correlation between the increase in negotiations between market actors on the one hand and market and political actors on the other. In the following only the individual firm's pursuit of advantages from public regulation is scrutinized.

It is not difficult to explain why implementation of public regulation paves the way for negotiations and contacts between firms and public authorities. It follows more or less directly from the discretion placed in the hands of the implementing bureaucrats. A different question is whether firms are politically active in the political and administrative decision-making processes that lead to the passing of general rules. In other words, are firms politically active in relation to proposed public regulation and do they pursue individual advantages through activities?

The guess is that this is not the case in general. The formulation of general rules is a matter for politicians, bureaucrats and organizations. If organizations have a role in the political decision-making process, rule-making should be the core area. This is not a business for individual firms.

As indicated in Table 3, firms do intervene in the proposition phase of the political decision-making process. The intensity is significantly less than in that of contacts in relation to cases in progress, but such contacts are not absent. On the average, large firms contact public authorities almost once a year while small firms average 0.28 times per year. 19.4 percent of

Table 4. Contacts to Politicians and Bureaucrats in Relation to "Cases in Progress" and "Proposed Regulation" (Percent).

	Cases in Progress	Proposed Regulation
Contacts to Bureaucrats	55.0	13.3
Contacts to Politicians	45.0	86.7
Total	100.0	100.0
(N =)	193	81

the small firms and 32.1 percent of the large firms had at least one contact during the preceding year concerning proposed regulation. It is surprising that the propensity to involve interest organizations in these contacts is at the same level as contacts in relation to cases in progress: 39.4 percent of the contacts to public authorities in relation to proposed regulation involve a simultaneous contact to an interest organization. As with cases in progress, large firms are significantly more inclined to involve organizations (72.3 percent of all contacts) compared to smaller firms (34.6 percent).

Table 4 shows the objects of intervention in the two situations. When a contact is motivated by a case in progress, it is bureaucrats rather than politicians who are approached. When the problem in question is proposed regulation, the pattern of contacts is very different: the primary objects of intervention are politicians, not bureaucrats. At first glance this seems to express very rational strategies of firms since rule-making is a primary role of politicians. Further analysis (Christiansen 1993) reveals that this is a premature conclusion: large firms are able to pursue rational political strategies: they focus on the relevant part of the political – administrative system, the ministry, the minister or the relevant parliamentary committee, whereas small firms are much more inclined to contact politicians and political parties at the local and national levels. The inclination of small firms to approach politicians appears to be a result of the lack of ability to focus their intervention rather than a result of a well-organized political intervention.

Most cases of firm intervention in the political and administrative decision-making process are based on a wish to draw the attention of bureaucrats and – above all – politicians to what the firm considers unforeseeable or unfavourable consequences of proposed regulation. This means that interventions are concretely motivated and almost exclusively part of a strategy that concentrates on a minor area of the activities of firms. In a number of cases it cannot be excluded that individual contacts are part of a collective strategy by business: it might be more impressive when unfavourable consequences of a given regulatory measure are presented to a parliamentary committee by a firm rather than by an interest organization.

It follows that contacts are not only part of individual but also collective strategies.

There *are* cases of firms which pursue individual regulatory advantages. A (limited) number of cases are found in the interviews, but since such cases are hard to detect, it is difficult to generalize about them. They typically concern regulation of *products*, not processes, and they are typically pursued by large firms, often with a monopoly or a nearby monopoly in the Danish market. In heavily regulated branches such as ship-building or dairies there seem to be a significant number of contacts between directors and public authorities. These contacts are, however, not an expression of individual but collective strategies on behalf of the entire sector. In such branches the small number of firms makes it difficult to separate individual and collective strategies (cf. Olson 1978).

It is well known that public regulation in areas such as the environment, work health and hazards and energy may provide the basis for competitive advantages (e.g. Ashford & Heaton 1983). The survey revealed that 24.2 percent of all firms had experienced positive consequences of public regulation. In most cases the positive consequences concerned the work environment, which is seldom directly the basis of competitive advantage. Around 20 percent of all firms stated that positive consequences could unequivocally be assigned to market advantages.⁴

When subject to scrutiny in the interviews it becomes clear that the creation of competitive advantages due to public regulation is seldom a result of direct interaction between firm and regulator: in most cases competitive advantages are due to the process of integrating regulatory standards in market standards. One of the firms being interviewed had developed valves for use in CFC-free refrigerating plants and had great expectations for its product. The development process was not due to interaction with any public authority but to the belief that CFC-free plants would be a market demand in the near future.

In sum, direct firm intervention in the political formulation phase does take place and a number of cases are found in which public regulation is the basis for creating competitive advantages, but those examples do not reflect the typical type of relation between firms and regulating authorities. Neither of the two hypotheses deduced from the macro concept of the negotiated economy finds general and satisfactory support. Against this background it seems necessary to reformulate and more precisely to delimitate the area of validity of the concept of the negotiated economy.

The Negotiated Economy: Is There a Theory?

The negotiated economy is not valid as a general descriptive concept or

explanatory factor in the development of state-market relations in the manufacturing sector. One might ask whether this conclusion is only valid for this sector or if it can be generalized to other sectors of the market. This is of course an empirical question, but it is doubtful whether a different conclusion would be reached by repeating the test on other major market sectors, for example agriculture or the private service sector.

The critique of the theory of the negotiated economy – as developed in later Danish versions – might be summarized in the following way: a first point is the lack of empirical testing. Part of the Nielsen & Pedersen (1988, 1988a) approach is not even verifiable in principle. Second, recent theory on the negotiated economy seems to be biased by a more or less authoritarian or collectivist perception of society, though weaker than that of neo-corporatist theory (e.g. Schmitter 1974). A basic idea of the negotiated economy is the institutional promotion of ideological conceptions leading to binding compromises between private and public actors (Nielsen & Pedersen 1988a, 94). It is very doubtful whether such collective conceptions can actually be found to guide the behaviour of market and public actors.

Third, the concept of the negotiated economy seems to be biased by a normative preference of negotiated relations between market and state actors. The negotiated economy is claimed to create effective decisions (Nielsen & Pedersen 1988a, 99f.). Negative consequences of the negotiated economy are overlooked. Negotiated relations between market and state actors might promote economic inefficiencies by entering into and monopolizing political as well as economic decisions. If firms are successful in exploiting their political environment, the consumers or the taxpayers might be the losers. Midttun (1988) has shown that such negative effects might occur as a consequence of negotiated relations between firms and public authorities.

It is – finally – a crucial weakness that the negotiated economy is promoted as a macro theory. The negotiated economy is stated to have replaced the mixed economy (Nielsen & Pedersen 1988), but when was the concept of the mixed economy ever a fruitful analytical concept? The problem is comparable to that of neo-corporatist theory as developed by Schmitter (1974) and his successors. It is simply not valid to describe policy-making or state-market relations in general in terms of the negotiated economy.

In sum, the theory of the negotiated economy is not a distinct political macro theory. It does not allow us to determine when and why we should expect what kind of outcomes from decisions coming out of the interplay between state actors, organized business and individual firms.

As shown above, the negotiated economy might, however, be an adequate theory for explaining and understanding relations between firms, organizations and state actors in delimited sectors of the economy. The

approach might be relevant in sectors heavily constrained by or dependent on regulation, as well as being useful in the study of bureaucratic-industrial complexes characterized by mutual dependencies, for example in the energy sector (e.g. Midttun 1988) or in sectors of the pharmaceutical industry. Finally, it might be useful in the study of large and monopolistic firms dependent on “political capital” to pursue market advantages.

In such delimited economic sectors the negotiated economy might be a fruitful concept for describing changing limits between the market system and the political system and for understanding and explaining market and political behaviour in times of increasing interdependence between the two sectors. Market actors might not be able to act freely without close cooperation with political actors. Political actors – politicians and bureaucrats – might be dependent on support from large firms or clusters of firms to pursue political strategies. Rent-seeking behaviour might increase in importance as market actors become more dependent on political consent, public subsidies, or regulation that suits individual firms to the disadvantage of taxpayers or groups who were originally supposed to benefit from regulation.

Further research in the track of the negotiated economy should be based on the Berrefjord & Hernes (1989) conceptualization or the concept loosely developed in this article. Alternatively, it should be asked whether some of the recent developments in neo-institutionalist theory might offer more well-defined concepts upon which to build theory on state-market relations in areas or sectors like those delimited above (e.g. Meyer & Rowan 1992; Windroff-Heritiér 1991).

Conclusion

It is tempting to use the phrase “the negotiated economy” to catch essentials of the development of state-market relations in the Scandinavian and northern European countries. But in science it is not enough to find intuitively acceptable concepts. In order to contribute to a fruitful description, understanding and explanation of aspects of society concepts should be clearly defined and useful in or as a basis of empirical research. The Berrefjord & Hernes (1989) approach was a step in this direction on the path originating from the Norwegian Power-Study, whereas the later – mainly Danish – development of a macro concept of the negotiated economy is a theoretical aberration.

The problems of the concept of the negotiated economy pointed at in this article should not disguise the fact that the concept catches important aspects of state-market relations, but that it does so pointing to the complex political environment of only *part* of the market sector.

The growth of the public sector and the growth of public regulation of market transactions have changed the political environment of firms. The political environment of manufacturing firms has been more individualized as a consequence of increased intensity of regulation of areas like protection of the environment, protection of workers and consumers and by increased discretion on the part of the implementing bureaucracies. No doubt public regulation over the last two to three decades represents a significant development in state-market relations. Public regulation has an increasing effect on the transactions of the market system, but for most firms this has not fundamentally changed the relationship with the political authority system. For the majority of firms the political environment is perceived to be chaotic and handled on an *ad hoc* basis. Public regulation might cost time and money and be annoying, but this is hardly enough to conclude that “an essential part of the allocation of resources is conducted through institutionalized negotiations between independent centres in the state, organizations (. . .) and corporations” (Nielsen & Pedersen 1988, 82).

With tighter regulation or with other kinds of interdependence – it should be remembered that regulation is not just a one-way process – between public and private actors, firms become motivated to invest a more conscious effort to scan their political environment and to develop strategies for handling costly an insecure regulatory demands. They might negotiate their political environment and be heavily dependent on the outcome of such negotiation processes. In these cases the institutional conditions of market behaviour change; it becomes less clear what type of action is motivated by what kind of logic.

NOTES

1. In a few cases the concept of the negotiated economy has been used outside of Scandinavia, e.g. Grant (1992).
2. The sample consisted of 760 firms stratified with respect to size and drawn from Danish manufacturing firms with more than six employees. The response was 411 firms or 54 percent. Weights were used to make results representative. The survey was followed by intensive interviews in 25 companies drawn randomly from the sample. The respondent was the managing director (CEO) or another person from the board of directors. See Christiansen (1993) for documentation of the survey and the interviews.
3. The term “social regulation” is imported from the American tradition. It is unfortunate since social regulations might be substantiated by an economic rationale and the traditional economic regulation by a social or political rationale. It will nevertheless be used in the following.
4. The survey probably underestimates the number and importance of such competitive advantages stemming from regulation.

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NOTES

1. In a few cases the concept of the negotiated economy has been used outside of Scandinavia, e.g. Grant (1992).
2. The sample consisted of 760 firms stratified with respect to size and drawn from Danish manufacturing firms with more than six employees. The response was 411 firms or 54 percent. Weights were used to make results representative. The survey was followed by intensive interviews in 25 companies drawn randomly from the sample. The respondent was the managing director (CEO) or another person from the board of directors. See Christiansen (1993) for documentation of the survey and the interviews.
3. The term “social regulation” is imported from the American tradition. It is unfortunate since social regulations might be substantiated by an economic rationale and the traditional economic regulation by a social or political rationale. It will nevertheless be used in the following.
4. The survey probably underestimates the number and importance of such competitive advantages stemming from regulation.

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