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Reflection: Firms, Rules, and Global Capitalism

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Every organization of the world economy has been unstable. Each system is necessarily composed of trade-offs. Opportunities emerge, and disappointments abound. Nothing lasts; nothing is finished; and nothing is perfect.

The excellent collection of essays for this special issue of *Business History Review* on governing global capitalism, edited by Grace Ballor and Sabine Pitteloud, explores the role of firms in shaping the evolution of this era of global capitalism. The authors offer an extraordinary opportunity to understand why the world is, as Max Weber put it, "historically *so* and not *otherwise*."[1]

Collectively, these authors raise a foundational question about the international economic order: Can any system of *global* capitalism be sustainable? The system's rules—both norms and laws—emerge from a political process in which firms are involved as both agents and objects. Such rules constrain and enable particular forms of corporate organization and practice. What results is a complex set of relationships among stakeholders—shareholders, management, labor, suppliers, customers, competitors, domestic and foreign governments, and international organizations—whose interests must be continuously renegotiated. Understanding firms both as actors and as sets of

I thank Grace Ballor and Sabine Pitteloud for their thoughtful reactions to an earlier draft of this essay as well as for their invitation to contribute to this endeavor. I am grateful to Sogomon Tarontsi for preparing elegant visualizations of the data.

[1] Max Weber, *The Methodology of the Social Sciences*, trans. Edward A. Shils and Henry A. Finch (Glencoe, Il., 1949), 56. For the best elucidation of the implications of Weber's thinking for patterns of world politics, see John Gerard Ruggie, "What Makes the World Hang Together? Neo-Utilitarianism and the Social Constructivist Challenge," *International Organization* 52, no. 4 (1988): 855–885.

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relationships allows scholars to explore the wide variety of ways in which the system itself is susceptible to change and vulnerable to disruption.

In this essay, I offer some reflections on the arguments and findings of these authors by posing two further questions. First, why is this system composed of specifically these—and not other—rules? Second, which elements of instability—social, political, fiscal—challenge the integrity of the system most thoroughly?

The Origins of the Rules of Global Capitalism

The first modern era of globalization lasted from approximately 1870 until war erupted in Europe in August 1914. After the end of the war, both firms and governments sought to rebuild global capitalism on the same prewar social and political foundations. That effort failed. Financial chaos, so-called currency wars, rising and increasingly politicized income and wealth inequality, protectionism, and the Great Depression undermined the social and political legitimacy of the system in national societies. By the end of World War II, the system of globalization had been definitively destroyed.

Business and political leaders believed that they had learned powerful lessons about the sustainability of global capitalism. Global capitalism, they thought, must be regarded as legitimate within national societies. So they began to construct a new international economic system that would be bounded by social norms to ensure that a sense of its fairness prevailed. John Gerard Ruggie described these understandings as the compromise of embedded liberalism.[2] The United States was, of course, at the center of the new international order. Europe's "open regionalism" was, however, essential to its creation.[3] The international system was built and maintained by transatlanticism. It has been as much a European creation as an American one.

Several of the authors of these essays describe European business and political leadership—and indeed occasional bureaucratic exuberance—for the codification of rules to organize and manage globalization. This appetite contrasts with the American and British penchant for a more ad hoc globalization.[4] Ad hoc globalization is primarily composed

[2] John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36, no. 2 (1982): 379–416.

[3] Peter J. Katzenstein, *A World of Regions: Asia and Europe in the American Imperium* (Ithaca, 2005).

[4] Rawi Abdelal, *Capital Rules: The Construction of Global Finance* (Cambridge, MA, 2007); Rawi Abdelal and Sophie Meunier, "Managed Globalization: Doctrine, Practice, and Promise," *Journal of European Public Policy* 17, no. 3 (2010): 350–367. On the intellectual foundations of the European approach, see Pascal Lamy, *La democratie monde: pour une autre gouvernance globale* (Paris, 2004).

of bilateral bargains that reflect underlying power dynamics. This approach does not always eschew multilateral rules, particularly when they serve the underlying distribution of power. The consequences of this difference, particularly during the preceding forty years, have been considerable, and they are reflected in these histories.

Ballor demonstrates in "Liberal Environmentalism" how the European Union (EU) emerged as a global leader in codifying environmental protection standards. She argues convincingly that the European project is neither "inherently neoliberal" nor a defense "against neoliberalism and globalization."[5] Ballor's careful reconstruction of the debates that begat standards and rules also reveals that "market pragmatism," rather than "principled environmentalism," underpinned the consensus that emerged.[6] The European project has not, of course, unfolded since the Treaty of Rome through a contest between this or that principle. Quite to the contrary, Europe is a system of rules to organize markets. European leadership in the organizing and managing of the global economic system was never really about principles, with the exception of one: more "Europe"—more integration and harmonization—was always seen in Brussels, Paris, Bonn, and Berlin as better than less.

Ballor's narrative also shows how important are the relationships among firms as part of the institutional architecture of globalization. Coordination among firms in the automobile industry through several successive, overlapping associations proved decisive to collaborate effectively with Brussels. Ballor shows that business–government relations must include industry–association–international organization relations when it comes to the creation of the rules of global capitalism.

Notable also is the role of contingency and charismatic leadership in the establishment of rules in these accounts. Occasionally political scientists and sociologists—and almost always economists—abstract from states as sets of political relations, governments as agents within state structures, and firms as sets of relationships. Historians rarely find, by contrast, ways to tell the story of key moments in the past as though they were devoid of moments of agency. Thus, Ballor reports, for example, that "the [European] Commission became a much more dynamic and capable institution: new and charismatic personalities like Commission president Jacques Delors joined the halls of Berlaymont, and portfolio delegation among commissioners was restructured."[7] (Pascal Lamy, the intellectual force behind Europe's emergent approach

[5] Grace Ballor, "Liberal Environmentalism: The Public-Private Production of European Emissions Standards," *Business History Review* 97, no. 3 (Autumn 2023): 579.

[6] Ballor, 589.

[7] Ballor, 593.

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to "managed globalization," was Delors' chief of staff.) The agenda of Europe's bureaucratic integrators and commercial competitors converged on the need for a rules-based system, and Ballor finds that another individual made a decisive impact: "Charismatic Volvo CEO Pehr Gyllenhammar leveraged his contacts in Brussels to propose a new transnational association of industrialists that would bring European CEOs together and give him a seat at the European policymaking table that he otherwise would not have had coming from a country outside the EEC."[8] Only with the careful exploration of the historical record can we discover, as Ballor does, these moments of agency and therefore contingency.

Similar themes appear in the fascinating account by Ann-Kristin Bergquist and Thomas David, in "Beyond Planetary Limits!" The International Chamber of Commerce (ICC), another business association, played a decisive role in the "transformation of international environmental governance."[9] The development of a robust partnership between the ICC and the United Nations Environment Programme (UNEP) produced a rewriting of the rules of the system. Perhaps even more importantly, the ICC and UNEP transformed the meanings of words and phrases that are still commonly used to describe a global capitalist system that could conceivably persist. Bergquist and David show that the UNEP welcomed the influence of firms and their executives to organize the regulatory environment. The UNEP sought, however, to work with "umbrella organizations of the international industry" and "not through contacts with individual companies."[10]

Bergquist and David's perspective of firms is remarkably similar to the story of emissions standards in Europe. "What the ICC feared most," they argue, "was not environmental regulation as such, but that it would severely complicate international trade and transnational business operations resulting from disharmonized legislations between countries."[11] That is, collectively, firms through their representative bodies did not seek to limit or avoid regulation by states. They simply sought to work with governmental and intergovernmental agents to create, as much as possible, a common set of rules.

The partnership between the ICC and UNEP thereby created the concept of "sustainable development." So thoroughly has this vocabulary shaped understandings of the system that it now exists as a sort of

[8] Ballor, 588.

[9] Ann-Kristin Bergquist and Thomas David, "Beyond Planetary Limits! The International Chamber of Commerce, the United Nations, and the Invention of Sustainable Development," *Business History Review* 97, no. 3 (Autumn 2023): 482.

[10] Bergquist and David, 486.

[11] Bergquist and David, 487.

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common knowledge and language. As with all such concepts, however, someone had once upon a time created it. In doing so, the ICC managed to achieve the opportunity for industry self-regulation—for a time.

Finally, the contrast between the American and British appetite for ad hoc, instead of managed, globalization is evident again in the fascinating reconstruction of the history of the European Development Fund for Overseas Territories (EDF), discussed by Sarah Stockwell and Véronique Dimier. To replace the multifaceted private- and public-sector relationships within the bilateral colonial projects of Europe's major imperial powers, European leaders sought to memorialize a collective, more multilateral approach in the EDF. While the American appetite for a less carefully organized global economic system derived from hubris and *realpolitik*, Britain's during the postwar period seems to have resulted from a curious mix of nostalgia and amnesia.

When, at last, Britain acceded to the EEC in 1973, after two French vetoes, its government immediately confirmed Charles de Gaulle's suspicion that British leaders did not fully understand the European project. (Britain would never, as it turned out, come to do so.) The divergence of understandings between Britain and the rest of Europe about the basic point of the EDF was considerable.

Stockwell and Dimier show that the British government believed that it had recognized in the EDF an opportunity for British firms to benefit unilaterally from the organization and its resources. Much as the European project itself was often seen as a glorified free trade union on the European continent, "from the outset" the British government "regarded participation in European aid as a commercial opportunity."[12] The discussions recovered from the archival record by Stockwell and Dimier literally, shockingly, and yet somehow unsurprisingly refer to potentially useful effects on the United Kingdom's balance of payments. British civil servants also complained that the European Commission and, as a result, the EDF were too "French minded."[13]

The fascinating result was that for all of the efforts of the British government to steer European rules and practices toward the commercial benefit of British firms, the results never fully materialized. Although they existed, "it seemed," according to Dimier and Stockwell, "these opportunities did not appeal to them."[14] Among other challenges faced by British firms, they struggled to recruit staff "with the requisite

[12] Véronique Dimier and Sarah Stockwell, "Development, Inc.? The EEC, Britain, Post-Colonial Overseas Development Aid, and Business," *Business History Review* 97, no. 3 (Autumn 2023): 524.

[13] Dimier and Stockwell, 537.

[14] Dimier and Stockwell, 540.

language skills."[15] Thus opportunities were also foregone for a simpler reason: they could not be bothered to produce tender documentation in French. Stockwell and Dimier conclude that "old geographies of empire" persisted into the postcolonial era.[16] In the end, in other words, the United Kingdom was largely unable to turn European multilateral rules into the sorts of bilateral advantages it had enjoyed once upon a time when it was the hegemon of the system. Neither the United States nor the United Kingdom adapted to a world in which it was less central than before. Perhaps their power was at one time too great. Or perhaps their sense of nostalgia for a mythologized past was too profound.

Crises of Fiscal, Social, and Political Legitimacy

Although all of the essays in this issue deal in some way with the legitimation of the system of global capitalism in the eyes of national societies, Vanessa Ogle's "Governing Global Tax Dodgers" explores this challenge most explicitly. Ogle raises a question that is at the core of national systems of capitalism. Is the way in which we have organized the international economic order fiscally sustainable for national governments that require the consent of its citizens to continue to pursue the integration of markets for goods, services, and capital across state boundaries? And are the proposed solutions to its potential fiscal unsustainability fair enough?

The series of decisions to liberate more fully multinational firms created a second great era of globalization, one that Ruggie describes as "corporate globalization."[17] Thus marked the end of the compromise of embedded liberalism. This moment created wondrous world output growth and sometimes mind-boggling individual benefits. Hundreds of millions of citizens around the world were lifted out of poverty and into new national middle classes. Global supply chains became more efficient. Many firms earned extraordinary profits for shareholders and shared those benefits with their management teams and some of their workforce. Capital flowed more freely across the borders of sovereign states. So, too, did goods and services markets integrate to degrees not experienced since the early years of the twentieth century and, of course, the later years of that first great era of globalization.

The roundtable that includes reflections from Patricia Clavin, Nicolás Perrone, Neil Rollings, and Quinn Slobodian engages a debate

[15] Dimier and Stockwell.

[16] Dimier and Stockwell, 546.

[17] John Gerard Ruggie, "Corporate Globalization and the Liberal Order: Disembedding and Reembedding Governing Norms," in *The Downfall of the American Order?*, ed. Peter J. Katzenstein and Jonathan Kirshner (Ithaca, 2022), 144–164.

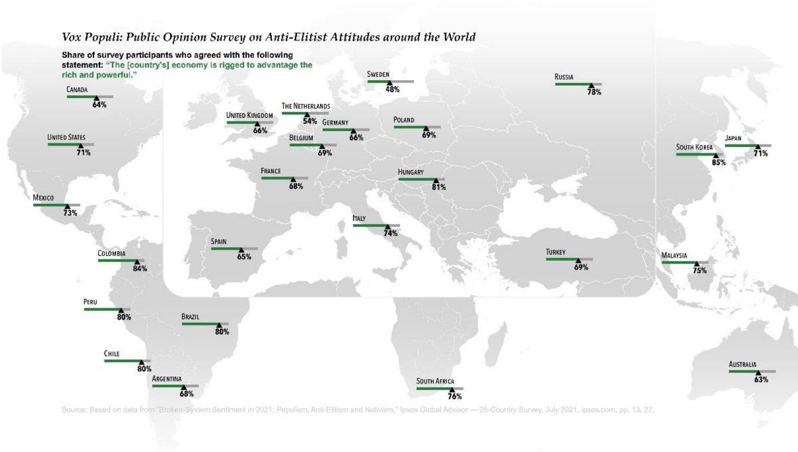

Figure 1. Beliefs that economic outcomes are unfair. (Source: Based on data from "Broken-System Sentiment in 2021: Populism, Anti-Elitism and Nativism," *Ipsos Global Advisor – 25 Country Survey* [July 2021]: 13, 27.)

about whether de-globalization is or is not underway. This debate is posed as one that might be adjudicated merely with evidence about how well markets are integrated.

I argue that there is another, more important question to pose: Has this system of global capitalism forfeited its legitimacy in too many national societies? This legitimacy crisis is concentrated in the societies of the declining West. Across much of Africa, globalization has not earned a poor reputation. This is also, for the most part, not a legitimacy crisis in, say, China or India. In the West, however, the erstwhile center of economic gravity of the world, many nations have fallen out of love with their own creation. Majorities of citizens question whether the benefits to their societies have been worth their costs. A schism between "elites" and "ordinary citizens" has grown to be vast (Figures 1 and 2). A system that is regarded as illegitimate cannot last for long in countries with democratic practices. (Even in countries with authoritarian rule, illegitimacy among majorities of citizens regularly, eventually, brings about regime change.) Many in our societies have come to regard the system as unfair. The political bargains that created the possibility of this system also have been delegitimized.

Ogle explores a less materially elusive question about whether the governments that perpetuate the system can possibly afford their commitments to their citizens if they cannot effectively tax individuals and firms. Firms do not just produce tax obligations, of course. They create meaningful and purposeful employment, build communities,

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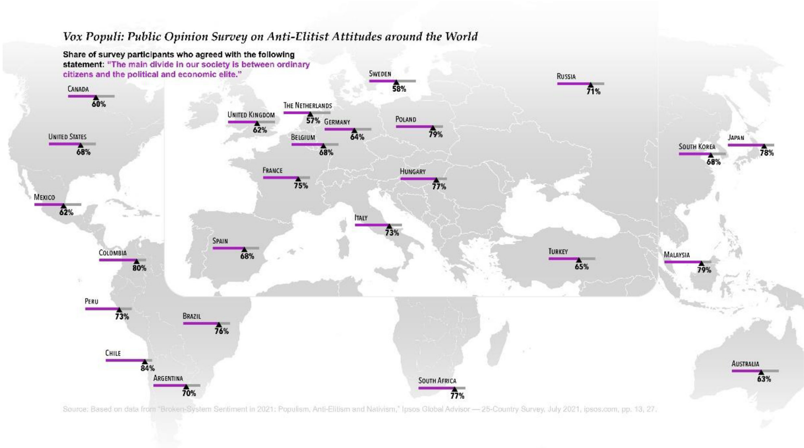

Figure 2. Beliefs that the main divide in societies is between ordinary citizens and elites. (Source: "Broken-System Sentiment in 2021: Populism, Anti-Elitism and Nativism," 13, 27.)

distribute profits, and deliver innovation. Ogle asks us to consider whether those benefits can effectively be balanced against the difficulty of taxing wage and capital income in a system of near-free capital mobility and a handful of countries—"tax havens"—that create the possibility of either evading or avoiding tax obligations. All of which is to ask: Is this system of global capitalism fiscally sustainable if governments cannot meaningfully maintain the public goods that taxes are supposed to provide?

In her essay, Ogle uncovers the historical record of how some governments began, slowly at first, to coordinate their ability to maintain their tax bases in such an era of global capitalism. Some rich countries, such as Switzerland, the Netherlands, and Liechtenstein, created possibilities for tax avoidance. Many developing countries sought to use differential tax treatment as a mechanism to generate economic activity. The early history of this effort at a coordinated response is revealing.

Ogle suggests that the history of tax treaties and efforts to optimize taxation rules at the international level illustrate the flexibility of capitalism and capitalists when it comes to escaping global governance. I propose that this history also reveals that every global system will be gamed by those whose job it is to game it. We have the system that we collectively chose, even if haphazardly and inadvertently or unwillingly. Those who are responsible for managing tax obligations will likely work to minimize them in whatever system prevails. Ogle's narrative suggests

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that we have, during the past several decades, reached the limits of developed countries' tax authorities to extract enough revenue from firms and individuals to fulfill the social obligations that are essential to maintaining the legitimacy of the system. In that sense, the fiscal sustainability of the system is now in question. This may be less a history of avoidance and evasion and more a history of rules. And like all histories of rules, it is one that explores what it means to bend, break, and mend them.

Elements of the social legitimacy of the system also are under threat. One concern is that "sustainable development" as a concept has not yet turned out to be either sustainable or developmental enough. The ICC's approach to self-regulation only delayed an environmental reckoning that has unfolded at an increasing pace. Although many developing countries benefited materially from the combination of decolonization and globalization, the European approach to overseas development aid was not a primary cause of those successes. The codification and dissemination of European emissions standards improved and rationalized regional and later global markets, but perhaps in retrospect they most probably did not go far enough.

Several authors in this issue observe that ideological shifts of the 1970s and 1980s served as a backdrop for the emergence of deregulatory governance practices that were co-created by firms and states: in a word, "neoliberalism." This is also shorthand for the unraveling of the compromise of embedded liberalism. Although the intellectual origins of neoliberalism were cultivated on the right of national political spectra, the broader phenomenon resulted from the convergence of the left toward a liberalizing, deregulating, technocratic, and globalizing center. This convergence of left and right created the possibility for entrepreneurial populist politicians to argue that such politics provide only the illusion of choice.[18] "Where Ricardo and Marx were as one," Karl Polanyi once observed about a similar convergence in history, "the nineteenth century knew not doubt."[19]

The combination of the left-right convergence and its seemingly unassailable status quo coincided with an era of increasing disappointment with the material consequences of global capital markets and supply chains. Although income inequality within nations reached levels that had not been experienced since the 1920s, simultaneous declines in intergenerational economic mobility rendered these economic outcomes

[18] Rogers Brubaker, "Why Populism?" *Theory and Society* 46, no. 5 (2017): 357–385.

[19] Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (repr. Boston, [1944] 1957), 25.

even less socially palatable.[20] Thus, it was not the mere fact of inequality that undermined the legitimacy of the system. It was, rather, a growing sense in societies that such an organization of economic activity was unfair.[21] We have excellent tools to measure the material fact of inequality. Measuring the social fact of perceived unfairness has proven to be more difficult.

Policy makers and centrist politicians have struggled to respond effectively to these crises of legitimacy. So, too, have firms, which themselves participated in the creation of such crises. Firms are both creators and potential soothers of the legitimacy challenge. Corporate social responsibility (CSR) emerged as a management tool in response to a sense that the legal license to operate granted by states also requires a social license to operate granted by communities.[22] Environmental, social, and governance (ESG) indicators and practices also partly represent a new corporate response to the sentiment that this system may be neither environmentally nor politically sustainable.

It remains an open question whether firms' responses will relieve or exacerbate these problems. The stakes for firms have been revealed to be considerable. What is increasingly clear is that firms—either as agents or as sets of relations—lack the option of choosing not to engage with the legitimacy of the system. For them, this is, after all, the goose that lays the golden eggs. To choose not to have some sort of response is also to pretend—wishfully—that things can go on indefinitely more or less as they have been.

Concluding Reflections

The contribution of business history to our understanding of, as Ballor and Pitteloud put it, "the relationship between capitalism and global governance" is essential and also promising for future research.[23] The authors in this special issue have recounted moments of contingency and individual agency that economists, political scientists, and sociologists have missed. Those moments also reveal the need to

[20] Once upon a time we would have simply described intergenerational economic mobility as class mobility. See Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," *Journal of Economic Perspectives* 27, no. 3 (2013): 79–102; and Raj Chetty, David Grusky, Maximilian Hell, Nathaniel Hendren, Robert Manduca, and Jimmy Narang, "The Fading American Dream: Trends in Absolute Income Mobility since 1940," *Science* 356, no. 6336 (2017): 398–406.

[21] Rawi Abdelal, "Dignity, Inequality, and the Populist Backlash: Lessons from America and Europe for a Sustainable Globalization," *Global Policy* 11, no. 4 (2020): 492–500.

[22] Ruggie, "Corporate Globalization and the Liberal Order," 147.

[23] Grace Ballor and Sabine Pitteloud, "Introduction: Capitalism and Global Governance in Business History," *Business History Review* 97, no. 3 (Autumn 2023): 459–479.

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disaggregate firms, governments, and international organizations into sets of relations—and not just agents. The histories also decenter the United States and the United Kingdom as creators of the rules of the system. In a meaningful sense, norms and rules compose the system, and so we must look elsewhere to make sense of their origins.

Two other contributions are particularly productive. There is, first, no such thing as a stable equilibrium of capitalism, global or otherwise. Power balances shift. Ideologies change. In the moment, the bargains might seem that they can last forever. From time to time, practices and trajectories seem inexorable.

Yet these historical accounts reveal how fragile each moment is. There is no one way. There is no such thing as a stable equilibrium of the international economic order. There are only trade-offs, followed by disappointments, frustrations, revolts, destructions, calamities, new bargains, and finally another equilibrium. That one, when it eventually emerges, also will not last. The histories of firms and capitalist systems is one full of fluidity, and business historians understand this so much better than political scientists, sociologists, and economists.

Second, the placement of firms and their executives at the center of these narratives demands that we make sense of them in analytically sophisticated ways. The individuals who run these firms mostly do not quite know what they are doing, what they should want, or why they have come to want what they want. They are constantly, in a word, learning. Preferences emerge. Strategies develop. Relationships evolve.

Firms exist in a world of uncertainty, not calculable probabilities.[24] This is precisely why judgment is more highly prized than analysis among the most senior executives. Technique will bring them only so far. Models and forecasts bring them to the moment when judgment must be exercised, when empathy and intuition must be employed. At that moment, a sense of history, a coherent worldview, and the competence of recognizing patterns are critical. Those moments of judgment are informed by local organizational cultures, habits of thought, and interpretive frameworks. Business leaders plan with a language of scenarios of possible futures, rather than prediction and calculation. Good judgment—coupled with a sense of timing—is not a resource, but a practice. Even when scholars believe that they have deduced what firms ought to want from their putatively evident material

[24] Frank Knight, *Risk, Uncertainty, and Profit* (New York, 1921); James G. March and Zur Shapira, "Managerial Perspectives on Risk and Risk-Taking," *Management Science* 33, no. 11 (1987): 1404–1418; Jens Beckert, "What Is Sociological about Economic Sociology?" *Theory and Society* 25, no. 6 (1996): 803–840.

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environment, the firms themselves, as Cornelia Woll has shown, surprise us through their struggle to discern their own preferences.[25]

By placing the learning, adaptation, uncertainty, contingency, and agency of firms and individuals into our stories of global capitalism and its governance, Ballor, Pitteloud, and their colleagues enrich immeasurably our understanding of why the world is so—and not otherwise.

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[25] Cornelia Woll, *Firm Interests: How Governments Shape Business Lobbying on Global Trade* (Ithaca, 2008).

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