

THEORY OF THE 'LITTLE' STATE:  
BUSINESS-GOVERNMENT RELATIONS  
IN THE COMMONWEALTH OF MASSACHUSETTS

by

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ABSTRACT

A case study was done describing the process of formulating economic policy in a sub-state (herein called the 'little' state) level of government. Based on the process by which economic policy was formed in the Commonwealth of Massachusetts during the years 1975-80, the study set forth and evaluated three hypotheses about the formulation of economic policy in a 'little' state.

The first hypothesis examined the motivation of elected officials. Interviews with elected officials in Massachusetts revealed that public officials are relatively autonomous from various interest groups in society. An elected official's greatest concern was pleasing voters who elected him or her to office. But the business community had influence because their existence guaranteed private sector jobs and an adequate level of public services demanded by the electorate. The second hypothesis asserted that businesses have different needs and competed for power. Evidence indicated that there was a relationship between a firm's stage of development and its public sector demands. Specifically, growth firms wanted different policies than declining or marginal firms. The final hypothesis examined the actual process by which economic policy was formulated. In Massachusetts, economic policy was the result of a consensus formed between the business community and members of different interest groups. The object of the consensus was to implement pro-business policies that pleased existing businesses located in the state without alienating the electorate.

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CHAPTER I  
INTRODUCTION

Business-Government Relations

The following is an examination of business-government relations in the Commonwealth of Massachusetts. Using the Commonwealth of Massachusetts as a case study, the research describes and tests a structuralist theory of the 'little' state.<sup>1</sup>

The subject of business-government relations is the focus of considerable research. Numerous books and articles have been written about the subject, often with vastly different conclusions. Since a person's ideology is partially defined by his or her view of the power of the business community in the affairs of government, the debate is often vigorous.

Rarely, however, is the debate about the amount of power vested in the business community; few people would deny that the business community is the most influential interest group in American society. Instead, the controversy is over the characteristics of business power--in particular, the amount of public policy controlled by the business community and the absoluteness of that control.

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<sup>1</sup>The 'little' state is a term for one of the fifty states of the United States. It is called 'little' to separate it from the Marxist term, the state, a reference to the nation-state.

It is possible to consider the debate as being in the form of a triangle. The corners represent three views of business-government relations with modified versions of each along the sides. On one corner of the triangle are "democratic optimists," or pluralists. Typified by writers like Robert Dahl, they believe that business power in the United States is relative--dependent upon the influence of other interest groups; no group, they assert, has a monopoly on access or power.<sup>2</sup> While business leaders can use their considerable financial resources and social status in a community frequently to persuade public officials of their positions, competing groups have similar potent resources, especially the power of the vote. Who is most influential, then, depends upon the issue and the interest of competing groups.

On the second corner of the triangle are a group of neo-Marxists who believe that businesses' influence is absolute. They are the "democratic pessimists," or instrumentalists like James O'Connor and C. Wright Mills who see an incestuous relationship between business and government: high-ranking public officials are either former business leaders or individuals who, once in office, develop close

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<sup>2</sup>R.A. Dahl, Who Governs? (New Haven: Yale University Press, 1961).

alliances with members of the business community.<sup>3</sup> Such officials have one overriding objective--to increase the profits of the capitalistic community. According to one version of this model, public officials implement two types of programs that assist business--state-financed public works or services that lower the cost of labor or other inputs into the production process, and social programs that maintain social harmony in society by guaranteeing workers a minimum standard of living.

On the last corner of the triangle are neo-Marxists who believe that businesses' power is relative but significant. They are called structuralists, political scientists like Fred C. Block, who at one level accept the pluralist hypothesis that government officials are independent from business interest and, in fact, have separate goals.<sup>4</sup> For example, structuralists maintain that business and government have different objectives. Business leaders want to maintain and expand their level of profits, while public officials care

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<sup>3</sup>James O'Connor, The Corporations and the State: Essays in the Theory of Capitalism and Imperialism (New York: Harper Colophon Books, 1974), C. Wright Mills, The Power Elite (New York: Oxford University Press, 1956).

<sup>4</sup>Fred C. Block, "The Ruling Class Does Not Rule: Notes on the Marxist Theory of the State," Socialist Review 33 (1968) 6-28; N. Poulantzas, Political Power and Social Classes (London: New Left Books, 1973).

only about staying in office. But structuralists also hypothesize that the seemingly separate objectives are, in fact, inseparable. For instance, public officials need economic prosperity because it means increased employment and firm profits and additional state revenues, permitting the funding of programs which please the electorate and ensure their reelections. Yet, prosperity also depends upon the production schedule of producers, which is a function of expected profits. Thus, public officials must please the electorate and advance programs and policies that increase profits in the business community if they want to guarantee their re-elections.

#### Theoretical Framework

At the start, we will hypothesize that the structuralist theory best explains the formation of state economic policy. In doing so, we will build upon a particular version of structuralism worked out by the sociologist, Fred Block. Although Block wrote about the relationship between business and government at the national level, his essay "The Ruling Class Does Not Rule: Notes on the Marxist Theory of the State," is nonetheless relevant to the study of the 'little' state.

Block's essay has several themes. The first theme is the relative autonomy between capitalists and state officials, a relationship that grew out of their different motivations. Individual capitalists, who are concerned with accumulating as

much profit as possible for their own enterprises, have little incentive to work together for the general advancement of the free-market economy. As a result, it becomes necessary for state officials, whose continued power rests on a health economy, to implement programs and policies that ensure economic prosperity. In certain cases, this means constituting reforms that may be harmful to specific businesses, but which improve the long-run prospects of the general economic community. For example, many programs that were instituted during the New Deal imposed unwanted restrictions on businesses. As in other situations, the state could only implement such programs by remaining relatively independent from the business community.

Block does not infer from the state's relationship with the private sector that the state engages in anti-business behavior. Instead, Block's second theme describes the conditions in the market-place economy that lead state managers to ultimately serve the business community.

In actuality, public officials need to ensure their re-elections, and continuation in power creates the conditions that make the state dependent upon the capitalist community. A prosperous business community has several critical functions. It produces goods and services desired by constituents. In addition, it employs citizens in jobs that provide them with money to pay for these goods and services.

Finally, a thriving private sector returns revenues to the state that can be used to subsidize public programs demanded by the citizenry.

But in his third theme, Block describes the basic contradiction in a democratic system. In response to electorate demands, state officials will implement reforms, such as increased protection of the worker, that have the added effect of limiting the ability of enterprise to accumulate profit. Even if reforms are not implemented, the threat of reforms could make business leaders wary about future actions and reduce their confidence in the economy.

Block believes that business confidence is a prerequisite to economic prosperity. Business confidence leads to added business investment, and increased employment and state revenues. The lack of business confidence, on the other hand, limits business production and creates an economic slowdown.

Clearly, state officials' ability to please the electorate depends upon the presence of business confidence. But improving businesses' outlook about the future means limiting governmental actions that improve human conditions. This is the paradox. Too much of a pro-business policy can anger the electorate who will respond by voting representatives out of office. At the same time, a policy that favors the electorate at the expense of business can produce economic decline and the same result.

Block believes there are only short-term solutions to the contradiction. For example, the pressure to maintain the private sector's business confidence often turns reforms, like public education, into mechanisms that facilitate the accumulation of capital. Block also asserts that non-economic reforms take place only during periods of economic instability, when business confidence is already low and cannot be further diminished.

#### The Model

The model tested in the succeeding pages assumes Block's structuralist framework. But while adhering to Block's basic themes--the relative autonomy of the state and the importance of business confidence in the market economy--the theory that follows differs in several respects. First, it eliminates Block's assumption of monolithic interest groups, and instead examines the implications of competing demands within groups as well as between groups. Second, the model focusses on policy decisions in small regions rather than the nation-state, which means the inclusion of a spatial dimension to the framework. Third, the model assumes the importance of resolution or developing a unity among various interest groups in the formulation of economic policy.

The model can be organized into four component parts:

(a) a description of state institutions; (b) a description of

interest groups; (c) an examination of the relationship between state institutions and interest groups and (d) an examination of the contradictions inherent to governing.

(A) State Institutions

A part of any model that explains the formulation of economic policy must be a description of state institutions. There are a number of institutions at the state level of government. They include the legislature, the judiciary and the executive branch, especially the bureaucracy. In addition, most states have a number of quasi-public authorities, like port and turnpike authorities, with extensive public powers.

Although people who work in state institutions have different organizations and goals, they have one common objective--the desire to survive and, if possible, to expand their powers. To survive means convincing the electorate of the value of their organization. For example, elected officials must persuade voters that keeping them in office is in their best interest. In turn, bureaucrats must convince legislators that the continuation of their programs will benefit their constituents.

But state institutions differ in a number of respects. For example, their power to control state policies is unequal --in part, a function of their access to the budget. Elected officials, who decide the budget, have more 'potential' power

than bureaucrats, who depend upon elected officials to fund their programs. In addition, administrators of programs that do not affect state revenues, like prison programs, have less power than officials in the tax or budget offices. Power is also dependent upon goals. Legislators are expected to shape public policy, while school administrators are expected to train people to be productive members of society. Finally, the power structure within similar institutions is likely to be different. Sometimes, the decision-making process is quite complex, as a result of custom and relationships. At other times, the power is formalized in job descriptions.

(B) Interest Groups

For the purposes of the model, interest groups in the 'little' state are divided into two categories--those who are part of the business community, and the electorate. There is general agreement about each group's goals: the electorate wants services and policies that improve their standard of living, while business leaders prefer services and programs that permit them to maximize their rate of profit.

Yet neither group is monolithic. Just as there appears to be a general consensus, there are also disagreements. Disagreements among the electorate, for example, can be explained by class interests. Improving the standard of living for poor people and rich people is likely to mean different programs. Often the programs conflict. The rich

prefer less taxation and services than the poor. The working class, represented by the labor unions, may be opposed to services demanded by minorities or those without jobs. The middle class has its own agenda.

Business interests are also not immune from conflict. A firm's needs is explained by its stage of development. There are three stages in the lifespan of a business enterprise. First is a firm's inception. Innovative firms are potential establishments, not yet in existence, but with profitable production techniques. Once established, most firms go through a period of expansion. Under certain conditions, growth firms can acquire market power, sometimes developing into conglomerates or multinationals that create barriers to entry for other firms. Those that do not will eventually compete with enterprises that have technologically superior production techniques. As a result, growth firms will become inefficient or marginal. This is the last stage of development. Some marginal firms are bought by conglomerates and multinationals. Others become stagnant or decline; they close down or their owners decide to keep producing at lower profit rates.

A firm's ability to grow, and thus its stage of development, is dependent upon factors that are associated with geographical locations. In the short run, the growth of a firm in a state may be due to non-economic factors, like the quality of life in an area or the unwillingness to leave a

familiar environment, as well as economic factors, like plentiful natural resources or labor. But in the long run, a firm's growth in a particular state is dependent upon the state's ability to offer a comparative advantage--some combination of inexpensive inputs or accessible markets that give a firm an economic advantage over other companies making similar products in another part of the country.

Comparative advantage is a dynamic, self-equilibrating mechanism. Initially, a firm's comparative advantage will result in lower prices and additional demand for its product. But the additional demand will increase a firm's output and eventually reduce the marginal productivity of factors, pushing up the cost of inputs until there is an equalization of factor prices between regions.

In other words, a comparative advantage is a temporary benefit experienced by growth firms located in a particular region. For example, as long as a 'little' state contains a comparative advantage for a certain type of industry, such as the high technology industry, that industry will locate and expand there. But in doing so, input costs will rise as additional demands are placed upon the same resources and a state's comparative advantage will lessen.

What then happens to growth firms? If the problem is expected to be short-term or owners of a company believe that small profit margins or limited opportunities elsewhere make it impractical to relocate, firms may stay in the same location.

Other firms may expand part of their operations elsewhere. Finally, a number of establishments may close operations or be purchased by other companies.

Since innovative firms are not yet in existence, they are only theoretically interesting in a research document about the formulation of economic policy. At any point in time, there are really only two types of firms operating in a 'little' state--expanding growth firms and inefficient marginal firms. Some firms will not bother with state policies, while others will get involved and advocate for public policies that improve their terms of trade or comparative advantage.

In comparison with class interests for constituents, the predicting variable that explains business demands on the public sector is stage of development. Table I provides examples of business demands. For instance, growth firms demand public policies that eliminate bottlenecks and make expansion less expensive. They ask the 'little' state for programs that reduce the cost of resources, especially the supply of suitably train workers, that improve the transportation system, and that provide capital for expansion.

Marginal firms, on the other hand, simply want to survive. To offset their inefficiencies, marginal firms demand programs that reduce their cost of doing business and allow them to compete with firms that produce the goods at a lower cost. Examples of such programs are tax incentives and reduced unemployment compensation benefits.

TABLE I  
 EXAMPLES OF BUSINESS DEMANDS

GROUP	GENERAL OBJECTIVES	SPECIFIC PROGRAMS
Growth Business Sector	Improve Comparative Advantage:	
	1) Increase supply of labor	<u>Labor</u> Limit unemployment compensation benefits Increase job training Improve school system  <u>Taxes</u> Lower personal taxes (income taxes) for skilled labor
	2) Increase the supply of capital	<u>Finance</u> Publicly subsidized loan and equity grants
	3) Increase development	<u>Regulations &amp; Laws</u> Minimize all business regulations Minimize land development regulations
4) Improve transportation networks	Build airports, new highways, better seaports	

TABLE I (Continued)

Marginal Business Sector	Maintain Existence	
	1) Lower cost of doing business	<p data-bbox="943 531 1044 562"><u>Labor</u></p> <p data-bbox="943 594 1375 688">Lower unemployment and workmen compensation benefits</p> <p data-bbox="943 720 1357 751">Keep minimum wage low</p> <p data-bbox="943 783 1044 814"><u>Taxes</u></p> <p data-bbox="943 846 1333 877">Lower business taxes</p> <p data-bbox="943 909 1357 972">Increase business tax incentives</p> <p data-bbox="943 1003 1333 1035">Lower property taxes</p> <p data-bbox="943 1066 1300 1098"><u>Regulations &amp; Laws</u></p> <p data-bbox="943 1129 1357 1329">Eliminate regulations that increase cost of doing business (health and safety regulations, environmental, etc.)</p> <p data-bbox="943 1360 1084 1392"><u>Finance</u></p> <p data-bbox="943 1423 1333 1455">Subsidize loan funds</p>

Relations Between the State and Interest Groups

Obviously, state officials, whose primary objective is to stay in office, must be prepared to satisfy the electorate who vote them into office. Since most officials want to remain in the public sector indefinitely, this means they must plan to satisfy the present and future needs of the electorate. Satisfying present-day voters requires both ensuring a healthy private sector to employ the citizenry and collecting and dispersing public funds in a manner that pleases the majority of the electorate. There is less that can be done to gain the support of people who vote in future elections. One concrete step that can be taken is proposing policies today that will guarantee the future prosperity of the economy and, with it, jobs and state revenues.

Several complications, however, make elected officials' jobs difficult, if not impossible. The foremost difficulty is the need to decide which of the many demands shall be satisfied. While state officials consider the needs of voters as primary, voter demands differ. More important, there is a critical difference between voters and constituents. Voters are constituents. But elected officials also consider constituents to be any group or individual that assists them to get re-elected. In this respect, a certain segment of the business community--the marginal sector--is likely to be more valued as constituents than as future employers.

For example, although the marginal sector of a 'little'

state's economy may be significant in size, most of its influence is derived from the relationships the sector has built up over the years with state officials. Through these relationships marginal businesses have become business constituents who provide state officials with several important services--technical assistance to help them understand legislation and campaign funds at election time. Not all businesses, however, are valued as constituents. In comparison, growth firms are valued for their promise of future expansion and thus the part they will play to ensure prosperity, employment, and future state revenues.

The role of state officials is to effect a consensus among the various electorate and business interests. Because of disunity, they must remain relatively separate from conflicting interest groups, with their own policies. The object of all action, of course, is to stay in power. But achieving this objective means resolving inherent contradictions. For instance, capital flows easily between regions, and care must be taken to nurture firms so that they remain and expand in the 'little' state. But a policy that favors firms at the expense of the electorate could anger voters and jeopardize a favorable vote in the next election. Yet, a policy that favors present voters over firms (especially growth firms) can lead to reduced revenues and unhappy future voters and losses in upcoming elections. To make matters worse, a policy of consensus will often as not lack clear purpose and lead to dissatisfied voters who will grow weary of unsuccessful programs and

either demand reduced public spending or a new group of appointed and elected officials.

### The Hypotheses Tested

The research will examine three hypotheses set forth in the model:

- I. Elected officials are relatively autonomous from the business community. Their major objective is to develop public policy that serves present and future populations of the electorate. But, to do so, they must differentiate between firms. One group of firms that need to be pleased--growth firms--guarantee future prosperity and thus future elections. Another group--marginal firms--are valued constituents who, with voters, ensure a public official's current election.
- II. Businesses' demand for public programs is a function of their stage of development. Not only do business interests compete for the power to influence public policy, but their access is initially unequal. Growth firms are inherently valued by politicians. In comparison, marginal firms must become politically active to receive favored treatment.
- III. Economic policy is the outcome of a consensus between different interest groups. They are several dichotomies in the system. First is the conflict between special interests among the electorate. Second is

the dichotomy between the demands of the electorate and members of the business community. Finally is the conflict between members of the business community in various stages of development. The objective of consensus in economic policy is to satisfy the needs of the various segments of the business community in a manner that does not anger the electorate.

The empirical research that will test these hypotheses covers a four year period, representing Democratic Michael Dukakis' only term as governor of the Commonwealth of Massachusetts. Over fifty interviews were conducted with public and private officials in a two-year span that included the end of the Dukakis administration and marked the beginning of Democratic Governor Edward King's tenure. Another twenty-five interviews were held during the fall of 1980 to obtain further information. In addition, all post World War II legislative and administrative records dealing with state economic policy, located in the Massachusetts State Library, were examined.

The research examines both the general process by which elected officials in Massachusetts formulate general public policy and the formation of a specific policy. A critical issue in research methodology involving business-government relations is finding an appropriate policy to study. There are two requirements--that it must be a substantive area of

public policy which also engages the interests of business and government representatives. For example, most business leaders are unconcerned about the direction of criminal justice policy. Studying business-government relations in the formation of criminal justice policy, then, could either be a wasted effort or, worse, lead to the erroneous conclusion that business is unable to influence the direction of criminal justice policy.

In theory, at least, economic policy should avoid this dilemma. Clearly, government officials care about economic programs that are designed to induce prosperity and expand the public treasury. In addition, the private sector's attitude about economic programs and prosperity is likely to be more complex. On the positive side, prosperity brings with it additional wealth and a greater demand for consumer products. While business leaders should support this result, they are opposed to the added competition for resources, which will likely increase their input costs.

But while the problem of a lack of business involvement is eliminated by choosing economic policy as the topic of study, there is the counterargument that since the subject most concerns the business community, the results might be biased the other way and wrongly indicate that the business community controls public policy. But this bias is not likely. First, economic policy does not just concern the business community. Instead, it often involves changing laws

and programs that were originally designed to protect workers and other constituents. But even if business were the only group involved in economic policy, it is wrong to presume that involvement always leads to control. Indeed, there are numerous examples at the federal level in which public officials have looked beyond the short-run interests of individual capitalists to design economic reforms to meet the long-range needs of the economy. To give just a few examples, businesses opposed the federal anti-trust legislation that was passed in 1890 to ensure the continued health of the capitalistic system in this country. They were also against the wage-price controls instituted by President Nixon between 1971-74 to control inflationary pressures in the early seventies.

There is, however, a serious conceptual difficulty associated with the study of economic policy. Specifically, how do we define economic policy? If we say that economic policy is a set of programs influencing consumption and expenditure patterns, then all public actions, which either alter tax burdens or expenditure patterns, can be classified as economic policy. While theoretically satisfying, the definition presents a practical problem. Accepting the "democratic pessimists" assumption that the purpose of all public programs is to advance the interest of capitalists implies that programs with 'official' non-economic objectives have the same characteristics as those programs that have the primary purpose of altering economic conditions. To give an extreme example,

grants to the arts would be analyzed in the same way as public employment programs.

The problem can be solved by only studying programs that have the explicit purpose of improving economic conditions in the state. The criteria of acceptance then becomes one of intent: is a major purpose of a program to improve the state's economic conditions?

By defining economic policy in this manner, it is possible to confine the study to three types of programs: (a) business promotion policy--programs originally designed to attract new businesses to the state; (b) business tax policy--laws designed to 'equitably' tax existing businesses into the state and (c) environmental and labor policies--programs designed for other purposes but which have recently incorporated specific economic objectives.

But why base a study on economic policy on events in Massachusetts? In response, there are certain advantages to examining the Commonwealth. Up to now, the subject of contemporary state economic policy has been almost completely ignored by public policy scholars. Much, however, has been written about the Massachusetts economic policy before the industrial revolution. Thus, background information provides perspective to the study. Equally important, the state was one of the first to be industrialized.<sup>5</sup> While its exact history

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<sup>5</sup>See Oscar Handlin and Mary Flug Handlin, Commonwealth: A Study of the Role of Government in the American Economy (Cambridge: Harvard University Press, 1969).

is unique, its long-term transformation from an agricultural-based economy to productive manufacturing to service sector to high technology is likely to be duplicated in other younger states. To some extent, then, learning about Massachusetts might be akin to looking into a "crystal ball" that can provide guidelines to less mature states concerning their futures.

### Past Research

Since the subject of post-war state policy has received minimal attention from scholars, there is very little tradition to draw upon in doing this research. Most of what has been done is the work of political scientists only peripherally interested in the question of business-government relations and state economic policy. Their main endeavor has been to explain the general voting patterns of state legislators.

The result of their research is of minimum value in providing a framework for this study. In addition, there is the added complication that there is no unanimity of findings in these past works. For example, several published studies conclude that party affiliation is the most significant variable explaining state legislators' voting records.<sup>6</sup> But,

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<sup>6</sup>John Wahlke, William Buchanan, Heinz Evlan and Leroy Ferguson, "American State Legislators' Role Orientation Toward Pressure Groups," Journal of Politics 22 (1960) pp. , William Keefe, "Comparative Study of the Role of Political Parties in State Legislatures," Western Political Quarterly 9 (1956): 535-41.

at least two prominent political scientists, V.O. Key and Thomas Dye, dispute this conclusion. Dye believes that a state's degree of urbanization and its population's average income and educational levels explain legislative actions.<sup>7</sup> Another researcher, Richard Hofferbert, believes that specific factors, such as the availability of resources in a state, its geographical location and its political and economic history, provide better clues toward understanding today's legislators.<sup>8</sup>

To further complicate the matter, few political scientists agree about the importance of interest groups in the decision process; some say that they have minimum significance, while others indicate either considerable influence or influence that varies from state to state and group to group.<sup>9</sup>

There is more consistency when focusing on research done on the state of Massachusetts. Studies on the legislative process in the state have repeatedly described the importance of party allegiance in voting decisions. In a post-World War II

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<sup>7</sup>Thomas Dye, Politics, Economics and the Public (Chicago: Rand McNally and Co., 1966).

<sup>8</sup>Richard Hofferbert, "Elite Influence in State Policy Formation," Politics 3 (1970): 316-344.

<sup>9</sup>Harmon Ziegler, Interest Groups in American Society (Englewood: Prentice Hall, 1964); James S. Lee, "Toward an Understanding of State Legislative Decision Making," in Dimensions in State and Urban Policy Making, eds: Richard Leach and Timothy O'Rourke (New York: MacMillan and Co., 1975).

research project by Malcolm Jewell, for instance, over 90 percent of the legislative roll-call votes were attributed to party allegiances.<sup>10</sup> Later examination by Duane Lockard concluded that there was unusual party cohesion during the period of Jewell's study, but that party cohesion was still a strong force four years later.<sup>11</sup>

In the same study, Lockard named the interest groups most closely associated with the state's Republican and Democratic parties. Not surprisingly, manufacturing, public utilities and real estate interests clustered around the Republican party and the labor unions had a home in the Democratic Party. A 1965 examination of lobbyists in four states, including Massachusetts, evaluated the perceived abilities of interest groups to affect legislative decisions.<sup>12</sup> Legislators in the state of Massachusetts named labor unions as the most powerful lobbying group with trade and business associations fifth, after insurance, education and financial institutions. Lobbyists who were questioned agreed that labor had the most influence, but placed business interests in a slightly higher position, third on the scale of power. At the same time, only

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<sup>10</sup>Malcolm Jewell, "Party Voting in American State Legislatures," American Political Science Review 49 (1955): 773-79.

<sup>11</sup>Duane Lockard, New England State Politics (Princeton: Princeton University Press, 1959).

<sup>12</sup>Lockard, New England State Politics, p. 156.

twenty percent of those Massachusetts legislators who completed the interview would admit that a lobbyist's view could make them change their vote on any particular issue.

### The Outline

The research is in five chapters. The second chapter examines the role of state officials. Through interviews conducted with over forty legislators and the governor, it describes the attitudes elected officials have about the formulation of public policy. The third chapter focusses on the business community. The object of this chapter is to understand the role of business competition in the formulation of public policy. The chapter examines the types of businesses involved in state government, the reasons for their involvement and the method of their involvement. Chapter four and five detail the contradictions and conflicts that are part of the process of formulating specific public policies. The chapter emphasizes the importance of consensus in the development of four specific economic policies--taxes, business promotion, labor and the environment. The final chapter summarizes the findings.

CHAPTER II  
PUBLIC OFFICIALS

Introduction

How do elected officials in the 'little state' formulate public policy? Are they aware of the conflicting need to maintain prosperity while satisfying the electorate?

Through two sets of interviews, conducted in the fall of 1978 and in the fall of 1980, state legislators in the Commonwealth of Massachusetts were asked to discuss the process by which they formulated public policy. The chapter examines both the general process of policymaking and the specific factors considered by legislators in deciding economic policy.

The State Legislature

In order to understand the motivation of elected officials, it was first necessary to describe the institution in which they work. The Massachusetts legislature, officially named the Great and General Court and referred by most as the General Court or simply the "Hill," is the oldest state legislature in the country. Once a body of men elected by church members, the legislature in 1978 consisted of forty Senators and one hundred and sixty Representatives, who, with rare exception, were civilians, elected by the general populace. Many--one-half of the Senators and one-third of the Representatives--had no other employment except politics.

Those who had other jobs were frequently lawyers with a part-time practice that permitted them time to attend to their public functions.

People became legislators for three reasons--prestige, power, and idealism. But not money: except for leadership positions, it was not a well-paid job. For example, the 1978 salaries of legislators, which was set by law, was less than \$15,000. In addition, legislators received daily travel expenses, which ranged from \$2.00 to \$32.00 per day.

Most of the members of the 1978 legislative session were Democrats in their mid-forties. Newly elected legislators tended to be younger than those with seniority. Almost all had at least a college degree and many also had a master's degree or additional professional training. Most were white males.

The state constitution guaranteed citizens the right of free petition. As a result, the General Court was usually in session for most of the year, considering the more than seven thousand bills filed by Massachusetts citizens. Until recently, every bill was given a public hearing by one of the 24 standing joint committees. While Representatives were usually appointed to several standing committees, Senators were often appointed to as many as five or six committees with responsibility for subjects ranging from energy to commerce and election laws. Most Democratic Senators also served as committee chairpersons.

The Basic Factors<sup>1</sup>

Obviously, we needed to go beyond the general statistic and statement to ask modern day legislators specific questions about economic policy. In so doing, we found the theme of electorate needs central to explaining elected officials' behavior. In particular, legislators' own views were secondary to the need to please the electorate; legislators were more concerned that their votes on major social and economic legislator be consistent with the views of the electorate than that they represent personal ideologies or the opinions of party leaders:

My job is to represent the interest of the district as I see it.

My personal point of view is secondary. I will try to convince my constituency if I feel strongly about personal views but I will usually mirror constituency opinions.

Even when considering so-called 'business legislation,' electorate needs were primary. For instance, legislators supported legislation that assisted business enterprise in the state. A number had no explanation for their attitudes. Those who did, however, supported pro-business policies

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<sup>1</sup>Most of the material covered in the subheading Basic Factors was the result of interviews conducted during the fall, 1980. Nineteen state legislators were asked a series of predetermined questions in interviews held at the state legislature. A more detailed analysis of the interviews is provided in Appendix I at the end of this chapter.

because they helped to expand the economy and increased state revenues, making it possible to serve the electorate who wanted jobs and public services:

There is a limit to how much government can provide in services and in employing people without a healthy economic base from which to derive a tax revenue. Most people are best served by the economy in which they are gainfully employed.

I favor pro-business policies if it increases jobs and small business and broadens the tax base but I do not favor big business at the expense of the public.

Although different legislators supported different pro-business policies, there was a consensus that the effectiveness of each policy lay in its ability to improve the state's business climate. A bad business climate, caused by anti-business public policies, limited the economic growth in the state and created the conditions of unemployment and inflation. At the other end, a positive business climate, a function of pro-business policies, induced business expansion, which made revenues expand, and employment grow in the state.

However, legislators were unclear about how to measure the state's business climate. The condition of the economy was not a factor. When first interviewed in 1978, during a period when the unemployment rate was 6 percent, equal to the national average, several legislators believed the state had a bad business climate. They based their views on what industry said about the business climate. But industry was a hazy term to legislators, not well-defined. A typical

legislative response in 1978 was:

I am told the state doesn't have a good business climate. Industry perceives the state as anti-business.

Another legislator in 1978 believed that the business climate was a ". . . state of mind." Still others measured the business climate by the amount of pro-business policies: the more programs that helped business (often undefined), the better the business climate. Sample comments of this type were:

A good business climate is one where government implements taxation policies and environmental regulations such that they were competitive with those of other states.

A good business climate would involve giving tax breaks to big business.

There was further ambiguity in legislators' thinking about economic policy. On the one hand, legislators were unconcerned about which type of businesses the policies affected. No matter whether the policies assisted expanding or stagnant enterprise, the business climate was improved as long as some segment of the business community benefitted. At the same time, most legislators understood that businesses served different purposes in the state. Some, like the older manufacturing companies, once the 'back-bone' of the Massachusetts economy, were important present-day employers who might not be existing in a decade or so. Others, like high technology firms, were critical to the state's future economy. With few exceptions, Commonwealth legislators in 1980 believed that the growth of the Massachusetts economy was linked to the growth of the

high technology industry in the state:

Older firms are the work-horses: the steady industries that form the back-bone. High technology firms are producing products of the future. They will grow and flourish.

The [high technology] firms are extremely important to the Massachusetts economy. The only resource that we as a Commonwealth have is our minds and educational facilities. The ability to produce in the high technology field has to be fostered; the work is critical.

Only a few legislators expressed reservations about the increasing importance of the high-technology industry. A state representative thought that the state should not promote high-technology industry because it will lead to less economic diversity and perhaps to a one industry state--both questionable results. In addition, a state senator questioned whether high technology firms will continue to expand in the Commonwealth. He had more faith in the older industrial firms that have been doing business in the Commonwealth for a number of years:

I wouldn't want to say that one or another group is critical to the present; I'm not even sure that high technology firms are critical to the future economy. I question whether the growth rate of high technology will continue. It seems that it will slack off. Furthermore, other states will be looking for more higher paying jobs. High tech firms will move as other states offer incentives. Older industrial firms have already been shaken out. Those that have remained are likely to continue to stay in Massachusetts. Their potential for the future is quite substantial.

Another reason legislators did not discriminate between types of pro-business programs was that few thought that voters particularly cared about their actions in this area of public policy. Legislators did not believe, for example, that endorsing specific laws that benefitted business would in any way affect their political futures; they assumed that voters were not particularly knowledgeable about specific pieces of business legislation and consequently did not make it an issue in political campaigns. As one state representative said:

. . . supporting [business] sponsored legislation does not help me get re-elected because most people do not know about it. Getting re-elected depends upon whether the legislature works and the economy grows.

But this did not mean that relations between business and voters were conflict free. Rather, the conflict was on a different plane--more general than specific. Each group had different goals which resulted in a difference of opinion about fundamental policies and programs. Business wanted fewer taxes and government intervention and voters generally wanted more services. While legislators sometimes took different sides in this conflict, their analyses of the nature of the conflict between the two groups were remarkably consistent:

The conflict [between business and constituents] is inevitable because groups see problems from different perspectives. Business groups are

oriented toward the free market system, letting a healthy economy create jobs. Social and labor groups want more government involvement to ensure employment and benefits which lead to increased regulations and decreased profitability of business.

The conflict between business and the electorate is inevitable because businesses spend all their energy and time trying to get resources that they don't have to pay for. The nature of business is exploitative.

Several legislators sympathized with businesses' position in this conflict. For instance, one senator complained that voters were insensitive to the fact that limiting businesses' ability to make profits will lead to increased prices and layoffs and eventually ". . . a smaller tax base and fewer jobs." A few others argued that, while they understood the necessity to have companies operating in Massachusetts, the legislature represented the general public and not business. Still, most believed that their job was not to take sides but to ". . . minimize the conflict between business and the electorate by trying to moderate the clashes between the two parties."

#### Understanding the Economy

Since the desire for economic prosperity was so great, it should follow that legislators would be knowledgeable about the state's economy. A sample of thirteen members of the House and seven members of the Senate were questioned about

their understanding of the economy during the fall of 1978.<sup>2</sup>

There were two ways to evaluate a state legislator's knowledge about economic events: through self-perception and from an evaluation of what they know. In the case of the sample, all but three legislators considered themselves more knowledgeable than the average legislator about economic matters. The remaining three said that their knowledge was about average.

The legislators were asked to discuss the conditions of the state and national economies during the period of the interview and to evaluate how each economy has been changing over time. Not surprisingly, politicians generally understood what was happening to the national economy. For example, the majority of state legislators agreed that inflation was the biggest economic problem facing the country in 1978. Like economists, however, their explanations for inflation differed. Some believed that inflation was the fault of big unions; some blamed government spending. The largest number, however, attributed the rise in prices to increasing international oil prices.

Legislators saw little difference between national and state economic conditions. When asked, eleven of the nineteen legislators interviewed in 1978 either said that inflation and

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<sup>2</sup>Appendix II at the end of this chapter includes additional data from the interviews.

unemployment were also problems in the state or more accurately, that the state economy was in the same condition as the national economy.

Even though they believed that there was little difference between the state and national economies, there was a great difference in their perception of the problems of the two economies. The concensus was that the state's economic problems were caused by inappropriate government actions at the state level rather than international or national trends. Although one-fourth of those interviewed attributed a part of the state's economic problem to the high cost of energy and transportation in the region, most claimed that high state taxes and government spending created the situation the state was in.

What made legislators blame the state's economic difficulties only on the public sector? One reason could be that there was little media or academic attention given to state problems. As a result, views about local business conditions were formed, not from expert opinions, but from legislators' own feelings about the economy or from the opinions expressed to them by business people residing in their legislative districts. Further, legislators believed that there was a relationship between the state's economy and its business climate. The poorer the climate, caused by anti-business

public policies, the worse the economic conditions.

### Public Parties and Public Policies

Up to now, there has been no attempt to differentiate between the policy positions taken by members of the Democratic and Republican parties. It is commonly assumed, for instance, that the Democrats represented the poor and the working class and the Republicans stood for the right of capitalists to keep and increase their profits. First, the interviews revealed that there was a substantial commonality of viewpoint. In addition, it is wrong to assume that there was even more than relative differences in party platforms. For example, party members in the Commonwealth have had a tradition of straying from traditional party philosophies.

There were a number of instances in the past when Massachusetts Democrats chose a "Republican" solution to a problem. During the early twentieth century, for example, Democratic nominees for governor often advocated no expansion in the public sector as a solution to a declining manufacturing base. One Democratic Governor, Joseph Ely, even suggested cutting the salaries of public employees as the way for the state to minimize the effects of increasing unemployment.

Republican party member have done likewise. In fact, a number of precedent-setting health and safety laws protecting workers would not have been passed in Massachusetts in the

early 1900's if a group of liberal Republicans had not decided that business owners had too much control over workers and the work place. In addition, while the Republican party has espoused a philosophy of lean budgets and minimum government spending, Republicans have never been reluctant to spend money on capital improvements. In 1913, for example, when Republicans controlled state politics, average per capita spending in the state was \$5.30, sixty percent above the national average. While education, hospitals, charities, and prisons accounted for one-half of the budget, twenty percent of the revenues went to amortize principal and interest payments for the new roads, seaports, and railroads.<sup>3</sup>

Still, Democrats in the state have more often been advocates of the needy. Some, like James Michael Curley, the Democratic governor during the Depression, have been innovators--demanding that there be unemployment compensation for the unemployed, a state public works program, union wages on public works projects, and a reduction of employee work hours. While others have been more traditional, it was the rare Democrat who did not advocate an expansion of social services after the Depression.

For a number of years, the Democrats had to depend upon support of rebel Republicans to implement their programs. Until

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<sup>3</sup>Arthur Holcolmbe, State Government in the United States (New York: The MacMillan Company, 1916) 308.

1952, (the year that Dwight D. Eisenhower was elected President of the United States) the Republicans had a majority of both the House and Senate seats. From 1952 to 1958, the two parties split control of the two houses. In 1958, however, the Democrats gained control of both branches of the legislature. That year, only sixteen of the forty Senate seats were held by Republicans, and ninety-five Republicans, compared to one hundred forty-five Democrats, were elected to the House of Representatives.

Although the governor's office has never been controlled by one party, the Democratic majority in the legislature has successfully pressured Republican and Democratic governors to provide more programs for working class and unemployed. Between 1953 to 1969, a time when the legislature was changing from Republican to Democratic control, general revenues collected by the state increased by three hundred percent. State spending reached its peak in the late sixties and early seventies, when state and local expenditures were increasing faster than the gross state product. Between 1962 and 1973, for example, state and local expenditures increased from 10.3% to 16% of gross state product.<sup>4</sup>

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<sup>4</sup>Robert Eisenmenger, Alice Munnell and Joan Poskanzer, Options for Fiscal Structure Reform in Massachusetts, Federal Reserve Bank of Boston, Research Report no. 57 (Boston, 1975), p. 29.

Priorities clearly shifted during the Democrats' reign. For instance, between 1957, the year before the Democrats began to control the legislature, and 1976-77, the state budget grew 480%. But during the same period, spending on education increased 694%. In fact, Massachusetts apportioned a larger percentage of state personal income, over two percent, to public welfare, than any other state in the union.<sup>5</sup>

Federal aid has helped to pay for the expanded social services. But state and local taxes have also been increasing--from 9.6 percent of personal income in 1963 to 14.8 percent of personal income in 1973, fifteen percent above the national average.<sup>6</sup>

To have sufficient revenues, state officials made fourteen permanent changes in the tax laws between the years 1959 to 1971. They voted to raise tax rates thirteen times. The personal income tax rate was increased three times; the corporate income tax rate was changed twice and a sales tax was enacted. In addition, elected officials have passed numerous temporary taxes, such as a surcharge on business and personal

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<sup>5</sup>U. S. Department of Commerce, Bureau of the Census, Historical Statistics on Government Finances and Employment, 1977 Census of Governments, vol. 6, no. 4, Table 18, pp. 92-94. See also Michael Kieschnick, "State Business Tax Incentives as a Tool for Industrial Development," (unpublished paper, 1980).

<sup>6</sup>Eisenmenger, et al., Options for Fiscal Structure, p. 12.

income tax. At one point, in the early fifties, it was estimated that one-fourth of the entire state budget came from temporary taxes.

By the 1970's, the individual income tax contributed two times more to state funds than did the corporate income tax. But the corporate tax, while providing only six percent of state and local revenues, increased five-fold since World War II. Although the corporate income tax rate remained relatively constant in the last decade--8.3 percent--it was by 1980 the seventh highest state corporate tax rate in the country.<sup>7</sup>

#### Politicians React to the Changing Economic Base

Although politicians from both parties had different perspectives about the ideal amount of electorate programs and tax burden, they shared similar attitudes about economic decline--that state government was somehow to blame for any down turn in the economy.

In fact, three events were taking place at the same time in the Commonwealth. Two of the events--the emergence of the Democratic Party as the majority party in the legislature and the increasing tax burden--have been described. There can be several interpretations to the third event--the state's

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<sup>7</sup>The five states with single based higher rates were California, Connecticut, New Jersey, New York, Pennsylvania and Delaware. The District of Columbia also had a higher corporate income tax rate. In addition, Arizona, Iowa and North Dakota had progressive rates that exceeded Massachusetts at the top income.

declining economic base. One interpretation is that the state's transformation from a manufacturing-based to service-based economy and the resultant unemployment created the conditions for the Democratic party to take control of state politics and implement expensive public programs that eased the hardships for workers but increased the cost of government. An opposing interpretation, generally held by politicians from both parties, was that the rising tax burden, due to the expansion of government, created a poor business climate and the loss of manufacturing employment.

But, in reality, the Commonwealth was not the only political entity losing manufacturing jobs. In fact, manufacturing employment has been declining in importance in the U. S. economy. But the loss of manufacturing jobs has been greater in the state; for instance, employment in manufacturing has been declining relatively in the country but absolutely in the Commonwealth.

The reduction in the state's industrial employment has, in fact, accelerated as a result of recent cutbacks of federal defense spending. One study estimated that as many as twenty percent of the state's work force lost their jobs in the early seventies because of the decline of defense contracts in the Commonwealth. Another concluded that the loss of defense contracts in the state over the last three decades has had an

enormous impact on the economic growth of the area:

Since the 1950's, the Northeast and Midwest have lost a disproportionate share of defense spending and now receive a lower level of military expenditures than any other area of the country. Defense spending has an important impact on the economic growth of an area. Declining expenditures increase unemployment, exacerbate already identifiable economic problems, and encourage the shift of economic growth to other areas.<sup>8</sup>

But the reduction in manufacturing jobs has not been limited to defense-related industries. Rather, the largest drop in employment has occurred in marginal industries that have been in the state the longest--apparel, leather and leather goods. To offset this trend, a small group of technically oriented firms have increased their employment. In addition, the service sector has been growing at a healthy rate; between 1963 and 1973, eighty-nine percent of all new jobs in the state were in service firms.<sup>9</sup>

Still, to the average state official, who believed that manufacturing was the base of state's economy, on which the health of other sectors depended, the state's economy appeared sluggish and unstable. He or she noticed that past state unemployment rates have been moderately higher

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<sup>8</sup>Northeast-Midwest Congressional Coalition, The State of the Region (Washington: Northeast-Midwest Congressional Coalition, 1979) 31. See also A. D. Little, Inc., Fostering Industrial Growth in Massachusetts, Massachusetts Department of Commerce, Vol. No. I (Boston, MA, 1970), pp. 2-3.

<sup>9</sup>Donald Stone, Service Sector Growth: Its Implications for the Massachusetts Economy and Federal Base Redevelopment, Joint Commission on Federal Base Conversion (Boston, 1975), p. 24.

than the national average and that there have also been six business cycles--periods of recession and then growth--since World War II.<sup>10</sup> Although the local cycles have paralleled national cycles, and, in fact have been less severe in Massachusetts than in the country as a whole, the local manufacturing sector experienced greater declines in income and employment than the service sector during these downturns.<sup>11</sup>

Public officials' attitudes about the Commonwealth's economy and their own part in it became even more negative after the recession of 1974-75. During that year unemployment rose by fifty percent. Except for the Great Depression, there were more people out of work than at any other time. For the first time, the state's recession was considerably worse than the country's. The local unemployment rate was 11 percent, thirty percent higher than the national average. State revenues dropped considerably. Welfare spending increased.

The new Democratic governor, Michael Dukakis, who had run on a platform of restoring economic prosperity in the state, had an economic crisis comparable to the Depression. There were signs that banks were worried about the state's financial balance sheet and would refuse to buy its bonds. By the

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<sup>10</sup>Lynn E. Browne, "Regional Industry Mix and the Business Cycle," New England Economic Review, Federal Reserve Bank of Boston November-December (Boston, 1978) pp. 35-54.

<sup>11</sup>Stone, Service Sector Growth, p.50.

spring of 1975, the governor, who had promised no new taxes, was forced to ask the legislature to pass the largest tax increase in the Commonwealth's history to balance the state's budget. Yet, even this action could not stop the rumors that the state could be going into bankruptcy.

What was happening to the Commonwealth's economy? Was it getting progressively worse? State officials were concerned. One reporter observed that the psychological impact of the recession was significant and long lasting:

. . . the psychological impact of all this was almost as serious as the damage on the balance sheet and has proved to be longer lasting. Through 1975, anyway, the state seemed unable to respond to the crisis effectively and the business community did not seem so inclined. About as constructive a move as many businessmen at the time--led by bankers and insurance executives--could or would manage was the raucous orchestration of the cry that Massachusetts is a rotten place to do business in.<sup>12</sup>

Although the economy soon improved, elected officials from both parties had not forgotten the crisis of 1975. Many of them worried about the state's economic future. Had they caused the crisis by increasing the tax burden on business or redistributing the wealth too much? Had their social objectives caused the decline of the manufacturing community? Were

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<sup>12</sup>Robert Turner, "Massachusetts in 1980," Boston Globe, 10 February 1980, p. 37.

economic conditions likely to worsen? Most important, what could they do to prevent another recession like the one in 1975?

### The Legislative Leadership's Role

Because legislative leaders assumed powerful roles in the Commonwealth, it is important to understand the influence they had in formulating the state's economic policy. There was no more important position in the state legislature than the Senate President or Speaker of the House. They decided the make-up of all standing committees and commissions of the legislature. They appointed colleagues to chair committees and to participate in other leadership positions. They allocated office space and staff. Finally, their favor or disfavor meant the difference between bills getting through or not getting through the legislature.

In 1978, the Senate President was a former high school teacher. A state Senator for two decades and Senate President for seven years, Kevin Harrington was the first Democratic chairman of what was the forerunner of the Commerce and Labor Committee, the chief economic policy-making committee. In those early years, he was a "bread and butter" Democrat, a friend of labor, the infirmed, and the needy. Likewise, he was suspicious of business and business interests.

Thomas McGee, appointed Speaker of the House in 1975, had a similar background. He grew up in the adjoining city to the

Senate President and, like him, was a Democrat who worked his way up the legislative ladder. The speaker was a man who cared more about helping friends and giving allegiance to the party than being concerned about issues. His strongest allies were members of veteran and labor groups and constituents from his hometown.

The Speaker of the House and the Senate President considered the economy a high priority issue in 1978. Both were concerned about the apparent lack of growth in the state's economy. But the reasons differed. The Senate President, a friend of business leaders and lobbyists, worried about the plight of business in the state. The Speaker, on the other hand, felt that too many of the people in his district were without jobs or needed public services.

Because of his seniority, however, the Senate President was the more powerful of the two leaders. In addition, he was the only one who had a definite perspective on the economy. That perspective had changed. Kevin Harrington, the Senate President, and traditional Democrat, was greatly affected by the recession in the early 1970's and the resultant shortfall in state revenues. By 1974, during the worst point of the state's recession, he decided that state policies were hurting business. As a result, he changed his position on a number of social issues:

In 1974, I began to realize what was happening to the state. I began to realize we were turning the Commonwealth into a sophisticated

Appalachia. I would really blame all of us collectively [in the legislature and the governor]. Since the post-world war, we did not realize the fact that bad guys were right--we were hurting business. I did not start to wake up until 1973-74. Then I started to take some unpopular positions.

The Senate President had a fatalistic attitude about the state's economy--he thought that the state was heading into a period of economic decline from which it might never recover. He viewed his major failing as Senate President was not being able to convince his colleagues to follow his economic policy recommendations.

What did the Senate President advocate? The legislative leadership, especially the Senate President, was more willing than rank-in-file legislators to take politically unpopular positions about economic policy. The Senate President, for example, believed that the best economic policy was one that lowered business and personal taxes by reducing state spending on social programs.

However, try as he might, the Senate President could never persuade his colleagues, who were fearful of electorate reaction toward reduced services, to support a "limited budget." Proposals to cut the budget ended up as bitter disputes, with the Governor and the Senate President saying the situation was caused by a type of generation gap:

Most of the politicians were born after the Depression. They do not understand what a real economic crisis is. Even with the

crisis of 1974, they were unwilling to turn their backs on social programs to save the Commonwealth because that is where their votes are.

### The Rank-and-File Respond

What did his colleagues consider good economic policy? Interviewees were asked that question in 1978 and 1980. In each period the most popular programs were those that gave financial incentives to industry to locate and expand in the Commonwealth. Legislators from both parties preferred business tax incentives--tax reductions or credits given to businesses for accomplishing a particular purpose. Democrats, however, thought that revitalizing the older cities was the next best economic program, while Republicans listed an across-the-board reduction in business tax rates as second choice. More legislators in 1980 than 1978 supported worker-training programs. This was in response to the increased shortage of skilled workers in the growing high technology industry.

Several legislators commented that they supported business legislation as long as it was not "at the expense of the people." Since most legislators supported tax incentives, which reduced state revenues, and forced a reduction of constituent services or an increase in other taxes, the phrase obviously had a special meaning. To legislators, acceptable business policy was actions that were non-controversial, unlikely to anger voters. In other words, the policy had

to be politically acceptable to voters.

To ensure this result, legislators relied on insiders who worked within the legislature for advice--especially colleagues on relevant committees and committee staff.

Insiders were accessible and knowledgeable about the range of legislative possibilities. Even more important, insiders were sensitive to the legislative process and the necessity to consider the political impact that legislation could have in the district. As one legislator explained:

The most valuable sources were colleagues on relevant committees because they put it into your terms . . . this is what this does and this will be good for you for these reasons and it will be bad because the people in your district won't like it.

But legislators, including the legislative leadership, were less concerned with the substance of the legislation than that some economic, pro-business legislation get passed. Unless a bill reduced tax rates, cut social spending or devoted substantial resources to a controversial public works project, the proposals received their most careful readings in the legislative committees. Once given committee approval, the legislature usually passed the legislation without discussion or revision.

In the end, legislators were guided by two principles: that, first, any economic program they supported to improve the economy be non-controversial and second, welcomed by the

business community. Since economic programs were designed to improve the business climate, an attitude about the economy that was difficult to measure, legislators were dubious about research that evaluated the benefits of pro-business policies. When asked in 1978 whether they would support policies if research could prove no tangible economic benefits, many legislators said that research could prove anything it wanted. Some said that they would still support such policies if business perceived there were benefits to the programs.

#### Conclusion

Legislators depended upon two conditions to exist: prosperity and voter support. Voters re-elected them to office. Prosperity provided the jobs and state revenues to keep constituents happy. As legislators were well aware, however, there was a contradiction in the system. Assisting prosperity meant supporting the demands of the business community which were often in conflict with the constituent demands. To accomplish both goals, legislators found a method of improving the business climate--tax incentives--which assist the business community without alienating voters. Legislative leaders preferred more controversial policies, such as limiting social programs, but have reluctantly accepted the judgment of their colleagues as political reality. Unfortunately, it is difficult to measure both the condition of the business climate and government's

ability to improve it. As a result, legislators put little faith in research that attempted to evaluate the effectiveness of a 'little' state's economic policy.

APPENDIX I

Interviews with Massachusetts' elected officials undertaken during the fall of the year 1980.

Form of Interviews

Nineteen interviews were conducted with elected officials in his or her office as the legislature. The interviews took between thirty to forty-five minutes. The questions were pre-designed. Names of the legislators who participated are in Appendix VI.

The Characteristics of the Sample

The sample was different from the general population of the legislature in several ways. First, the sample included more Republicans than the population as a whole. Thirty-seven percent of the sample were Republicans and sixty-three percent of the sample were Democrats, compared to a population split of eighteen and eighty-one percent, respectively.

Party Affiliation of Massachusetts Legislature 1978-80  
(in percentage)

	<u>POPULATION</u>			<u>SAMPLE</u>		
	House of Represen- tatives	Senate	Total	House of Represen- tatives	Senate	Total
Republican	19	15	19	37	0	37
Democrat	81	85	82	63	100	63

The political attitudes of the sample were also compared to the population. The comparison was based on ratings given to the legislature by the Beacon Hill Update, a bimonthly, newsletter that reviews the efforts of state politicians. The ratings were based on the votes of ten bills that reflected a legislator's attitude toward the poor. A comparison revealed that the sample contained more conservative and liberal legislators than the population.

Beacon Hill Update Rating  
(in percentages)

	<u>POPULATION</u>			<u>SAMPLE</u>		
	House of Represen- tatives	Senate	Total	House of Represen- tatives	Senate	Total
Less than 30 <sup>a</sup>	43	18	38	44	--	37
30-50	40	33	38	31	--	26
51-70	8	15	12	6	33	11
More than 70	9	34	12	19	67	26

<sup>a</sup>indicates percentage of times voted 'correctly' according to Beacon Hill Update.

Factors Considered In Voting

Legislators evaluated the importance of four factors-- personal ideology or values, the needs of the Commonwealth, the views of party leadership and the needs and/or preferences of constituents. The question was asked in two different ways. First, legislators were asked to rank the importance of the variables. The needs of the Commonwealth was the most important variable; party leadership was the least important.

Factors Considered in Voting  
on Major Social and Economic Legislation  
(in percentages)

	Very Important	Somewhat Important	Not Important	No Response
Personal ideology or values	68	21	11	--
The needs of the Commonwealth	90	5	5	--
The views of party leadership	11	63	21	5
The needs and/or preferences of your constituents	74	26	--	--

But the responses differed when legislators were asked to give the most important factor. In this case, three-quarters of the sample cited as most important the needs of constituents, either alone or in combination with personal ideology or values.

The Most Important Factor Considered  
in Voting on Major Social and Economic Legislation  
(in percentages)

Personal ideology	10
The needs of the Commonwealth	--
The views of party leadership	5
The needs and/or preferences of your constituents	53
Combination of personal ideology or values <u>and</u> the needs and/or pre- ferences of your con- stituents	21
No response	11

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Trade Associations

Legislators understood the distinctions between trade associations. Most, for example, knew that the Associated Industries of Massachusetts and the Greater Boston Chamber of Commerce represented older manufacturing firms and the Massachusetts High Technology Council represented high-growth industry.

Which of the following four business groups--the Massachusetts High Technology Council (MHTC), Associated Industries of Massachusetts (AIM), the Greater Boston Chamber of Commerce (Cham.) and the Massachusetts Taxpayer's Foundation (MtF) represents the following types of firms?<sup>1</sup>

	AIM	MHTC	CHAM.	MTF	NO RESP.
Older manufacturing firms	68	--	22	5	5
High growth industries	--	85	5	5	5
Banks and financial institutions	20	--	25	50	5

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<sup>1</sup>Legislators were permitted to name more than one association for each category. Thus, the percentage is in relation to the total number of times associations were cited in each category.

Legislators, however, did not depend upon trade associations for financial assistance. For example, when asked which trade association(or membership of a trade association) gave the greatest financial assistance at campaign times, fourteen legislators said that none did. Three gave the Associated Industries of Massachusetts and two said insurance companies provided financial assistance.

Legislators were also asked to the name the trade association that gave them the most technical assistance in their jobs. The most common response was that none did or they gave a name of an association that was not a trade association. The Associated Industries of Massachusetts was the most frequently cited trade association.

Which trade association membership or lobbyists gives you the most helpful technical assistance as background for deciding policies, votes or legislation to introduce?

	Number of Responses
Massachusetts Taxpayers Foundation	4
Associated Industries of Massachusetts	6
Massachusetts High Technology Council <u>and</u> Associated Industries of Massachusetts	1
Massachusetts Taxpayers Foundation <u>and</u> Associated Industries of Massachusetts	1
Other types of associations (labor, teacher's group) <sup>1</sup>	5
None	2

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<sup>1</sup>MIT's Wednesday Morning Breakfast Group, an association of liberals and community activists, was cited twice.

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Finally, legislators were asked to name the one trade association that carried the most influence. Once again, the most frequent response was none or a group that was not a trade association. Associated Industries of Massachusetts was the most frequently cited association.

	Number of Responses
Massachusetts Taxpayers Foundation	1
Associated Industries of Massachusetts	4
Massachusetts High Technology Council	1
Massachusetts Taxpayers Foundation <u>and</u> Associated Industries of Massachusetts,	1
Massachusetts High Technology Council <u>and</u> Associated Industries of Massachusetts	1
Other types of associations (labor, etc.)	4
None	7

## APPENDIX II

Interviews with Massachusetts' officials undertaken during the fall and winter of the years 1978 and 1979.

### I. Elected Officials

#### Form of Interviews

Twenty interviews were conducted with elected officials in his or her office at the state legislature. They took between thirty minutes to an hour and a half, depending upon the interest of the politician and the amount of interruptions. The questions were pre-designed and, with one or two exceptions, followed the same format. The actual names of the legislators interviewed are indicated in Appendix V.

#### The Characteristics of the Sample

The sample differs from the population of legislators in several ways. First, the 1978-79 sample has proportionately more Republicans than the population as a whole. Thirty-eight percent of the sample were Republicans and sixty-two percent were Democrats. In comparison, seventeen percent of the population were Republicans and eighty-two percent were Democrats. Once percent were Independents. The largest discrepancy was in the State Senate. Fifty percent of the senators were Republicans compared with a seventeen percent population norm.

PARTY AFFILIATION OF MASSACHUSETTS LEGISLATURE  
1977 - 1978  
(in percentages)

	<u>Population</u>			<u>Sample</u>		
	House of Representatives	Senate	Total	House of Representatives	Senate	Total
Republican	17	17	17	30	50	38
Democrat	82	83	82	70	50	62
Independent	1	--	1			

The political attitudes of the sample was also compared to the legislative population. To do this, the author examined the ratings given the two groups by the Americans for Democratic Action, a liberal advocacy group. The Americans for Democratic Action used 35 bills in the House and 23 bills in the Senate to rank the legislators. The ratings established that the sample was about twice as liberal as the population, especially in the House of Representatives where the percentage of the members sampled with ADA ratings over seventy was over twice the percentage of the House membership.

	House of			House of		
	Representatives	Senate	Total	Representatives	Senate	Total
less than 30 <sup>a</sup>	43	48	44	20	33	25
30 - 50	26	17	25	10	17	12
51 - 70	9	12	9	20	17	18
more than 70	22	23	22	50	33	25

<sup>a</sup>indicates percentage of times voted 'correctly' according to the ADA.

In order to get a better understanding of the "liberalness" of the legislators interviewed, they were asked to rank themselves about their attitudes toward fiscal and social issues. Members of the House and Senate clearly viewed themselves as more progressive/liberal or moderate on social issues than fiscal issues. House members were more likely to consider themselves conservative on social and fiscal issues than Senators. This was especially true of fiscal matters; 33% of the Representatives compared with 14% of the Senators called themselves fiscal conservatives.

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PERCEPTIONS ABOUT THEMSELVES  
(In Percentages)

	<u>Social Issues</u>			<u>Fiscal Issues</u>		
	House of Reps.	Senate	Total	House of Reps.	Senate	Total
Progressive/Liberal	46	52	45	15	14	15
Moderate	46	58	50	54	72	60
Conservative	8	--	5	31	14	25

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The Business Climate

Fifteen legislators answered the questions on the state's business climate. Of the 15 who responded, only six said that the climate in 1978-79 was poor. The remaining nine thought that the climate was fair or good, better than in the early seventies, but with room for improvement.

ATTITUDE ABOUT BUSINESS CLIMATE

	<u>House</u> <u>Democrats</u>	<u>House</u> <u>Republicans</u>	<u>Senate</u> <u>Democrats</u>	<u>Senate</u> <u>Republicans</u>	<u>Total</u>
Good <sup>a</sup>	1	-	1	-	2
Fair	4	2	1	-	7
Poor	3	2	1	-	6

<sup>a</sup>Five legislators never responded to the question.

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Legislators were asked to reveal the basis of their conclusions about the business climate. The two most important sources were the legislators own feelings or observations about either the economy, business' attitudes or the number of economic programs or the feelings, and observations of businesspeople who resided in their districts. Lobbyists, legislative committee staff or colleagues and newspapers or magazines were mentioned less frequently.

BASIS OF CONCLUSIONS ABOUT BUSINESS CLIMATE

	<u>House</u> <u>Democrats</u>	<u>House</u> <u>Republicans</u>	<u>Senate</u> <u>Democrats</u>	<u>Senate</u> <u>Republicans</u>	<u>Total</u>
Herself/ Himself	3	1	1	2	7
Business Consti- tuents	1	3	1	-	5
Lobbyists	-	-	1	-	1
Newspapers, Journals	3	-	1	-	4
Other <sup>a</sup>	1	1	-	-	2

<sup>a</sup>Includes legislative staff and colleagues. One person did not respond.

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Economic Policies

The interviewee was twice asked to recommend state economic policies that should be followed in Massachusetts. First she or he was requested to suggest several legislative and/or administrative programs to improve the state's economy. No guidance or suggestions were made to them by the interviewer. Later, however, they were given a list of predetermined policies and asked to rank them on the basis of their effectiveness in increasing employment in the state.

Sixteen legislators answered this part of the questionnaire. In general, the proposals made by the legislators were quite varied, ranging from giving money to community

development corporations to off-shore oil drilling for a better energy supply to better transportation to the Boston suburbs to training high technology engineers to work for the growing high technology industry.

Ten of the sixteen legislators, however, had some type of tax reform on their list of desirable economic policies. The reforms suggested included broadening the sales tax, repealing a surtax on personal income and eliminating the capital gains tax. Seven of the ten suggestions were some form of business tax reductions or tax incentives.

The list of seven economic policies that they were asked to rank in relation to their effectiveness have been advocated by different people as proper economic development strategies. They were not meant to be all-inclusive. Still, one legislator thought that the selection, which included better highways, revitalizing older cities, relaxing environmental regulations for industry, tax reductions and incentives for business and better public transit, to be generally without value, and with some exception, ranked most of the suggestions as sevens, the worst category. Because his numbering would have produced a bias in the system, his numbers were not used in calculating the final index.

ECONOMIC POLICY RANKINGS BY LEGISLATORS<sup>a</sup>

Policy	Total Points <sup>b</sup>	Rank <sup>a</sup>	Dem. Points	Dem. Rank	Rep. Points	Rep. Rank
Better Highways	92	7	57	6	35	7
Reduced business taxes	54	2	38	3	16	2
Revitalizing Older Cities	58	3	26	2	32	5 <sup>c</sup>
Business Tax Incentives	32	1	19	1	13	1
Expanding Technical & Promotional Capabilities of the Dept. of C&D	70	5	38	4	32	6 <sup>c</sup>
Rapid Transit	91	6	59	7	32	4 <sup>c</sup>
Relaxing Environmental Regulations for Industry	67	4	46	5	21	3

<sup>a</sup>1=best policy; 7=worst policy

<sup>b</sup>three legislators did not finish the survey and were not calculated; one return from a legislator who had ranked all but 3 policies as sevens, "7" was discarded to maintain consistency in this table.

<sup>c</sup>Tie vote.

Dem. = Democratic

Rep. = Republican

## CHAPTER III

### MASSACHUSETTS' BUSINESS COMMUNITY

#### Introduction

Obviously, understanding business-government relations in the Commonwealth of Massachusetts requires a knowledge of the state's business community. In particular, there are two features about the state's political and economic past that provide a perspective about the characteristic of business involvement in the 'little' state.

1) The emergence of competition between growth and marginal firms.

It is possible, for example, to trace the emergence of competition between growth and marginal firms in Massachusetts to the nineteenth century. During this period, differences in needs led to conflicting public demands. Because of the importance to local investors of the outcome of these public decisions, business leaders took an active role in nineteenth century party politics and state elections. By the mid-twentieth century, however, business participation had changed; most businesses now joined trade associations that lobbied politicians who had few ties with the business community.

2) The existence of the law of comparative advantage.

The early concentration of textile, leather and leather goods industries in Massachusetts eventually led to a loss of comparative advantage, business disinvestment, and the begin-

nings of a class of marginal industries. Eventually, a new class of growth firms located in the state and competed with the class of marginal industries for the right to influence public policy.

#### Business Participation in Politics

If there is a lesson to be learned from history, it is that the level of an individual's participation in politics depends upon potential benefits to be gained from that participation. People of means, for example, were most active in the affairs of Massachusetts state government during the period when they were making their greatest profit there: when trade between Boston, England and the West Indies in the eighteenth and nineteenth centuries provided local merchants and shipowners with an excellent livelihood.

Since this was also a period of state's rights, being a state politician gave the wealthy an almost unlimited ability to propose public programs that furthered their material advancement. In one way or another, they controlled state affairs. For example, they organized the state legislature's sessions so that representatives from the districts around the Commonwealth moved to Boston several times a year for extended periods to consider the affairs of state. Since representatives received no pay for attending to this civic duty, only owners of businesses or those who did not have to work could afford to serve the "public interest."

But people of wealth did not always agree about legislation. In particular, members of the nineteenth century Massachusetts legislature represented two types of business interests--the more traditional landed gentry from rural districts who made their living from the land and people of commerce who made their living from the sea. Both groups wanted public policies that furthered their own material advancement.<sup>1</sup> Thus, the landed gentry really represented a no-growth industry and they acted to preserve the monopoly they always had on the local agricultural food market in the state and voted against any public investment in building transportation systems to other parts of the country that would bring in outside produce. The people of commerce, on the other hand, wanted to start to build public roads linking Massachusetts with other regions to increase their trade.

One proposal they did not agree upon was the use of state funds to construct a railroad. Not surprisingly, the landed gentry and Democrats, people opposed to the use of state funds to subsidize private ventures, opposed the public construction of railroads that would connect newly developing industrial towns with consumer markets. But such a railroad was too risky

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<sup>1</sup>See Edward Chase Kirkland, Men, Cities and Transportation: A Study in New England History (Cambridge: Harvard University Press, 1948); Arthur Johnson and Barry Supple, Boston Capitalists and Western Railroads (Cambridge: Harvard University Press, 1967); Stephen Salisbury, The State, The Investor, and the Railroad: 1825-1967 (Cambridge: Harvard University Press, 1967).

for private investors and for several years, a stalemate existed between industrialists who did not have and wanted railroads, and those against their construction.

The industrialists strategy to accomplish their goal was to get even more involved in the political process. In this situation, prominent industrialists joined with people of commerce and organized the Whig Party. The new party ran state-wide candidates for office. By the 1850's, the Whig Party was the most powerful party in the legislature. Although members of the new party included shopkeepers, farmers and even some factory workers, it was clearly controlled by the affluent merchant and capitalist class; over 90 percent of the City of Boston's wealthiest citizens during this period were Whigs.<sup>2</sup>

The industrialist strategy of becoming more involved in the political process led to a new state policy to help finance the railroad network. Four railroads--the Eastern, the Nashua and Lowell, the Boston and Portland and the Norwich and the Worcester--were subsequently lent over one million dollars by the Commonwealth. A fifth railroad, the Western, was almost completely constructed with state funds; the Commonwealth loaned the railroad over three million dollars

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<sup>2</sup>Robert Rich, Politics and Pedigrees, The Wealthy Men of Boston: 1798-1852 (Los Angeles: University of California, 1975)) 162.

and purchased four hundred thousand dollars of its stock.<sup>3</sup>

### First Economic Disengagement

Two unrelated events, however, set the stage for business disengagement from active participation in the political process. First was an embargo, caused by the events of the War of 1812, which halted trade between Europe and the United States. Second, the state of New York completed the Erie Canal in 1825. Although costing the enormous figure of \$7 million, the canal brought trade to New York and made New York, not Boston, the busiest trade center in the East.

No longer able to depend upon the Boston port for their wealth, several local industrialists began to participate in other ventures, especially industry. Several textile companies were started in towns near Boston. From 1813, when the first cotton textile company, the Boston Manufacturing Company, was started on the banks of the Charles River, to the beginning of the twentieth century, the state continued its prosperous ways; it now became the leading manufacturing state. For a time, cities like Fall River, in the southern part of the state, with its cotton manufacturers and Lawrence, with its boots and shoes, were nationally known centers of commerce. But as far back as the mid-nineteenth

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<sup>3</sup>Sandra Kanter, "State Aid to the Western Railroad," (unpublished paper, 1978).

century, the state's industrial supremacy began to be challenged. At first, other industrial states in the Northeast, like New York and Pennsylvania, surpassed Massachusetts in industrial output.

But by the early 1900's, there were signs that the South would become a more important industrial region than the Northeast. At least part of the reason had to do with comparative advantage. The South's production costs were simply lower than the North's. Power to run the mills, raw materials and labor were all cheaper. In 1919, for example, the average hourly wage paid South Carolina production workers was 22 cents compared with 40 cents an hour for Massachusetts workers.<sup>4</sup>

To the great discomfort of the industrialists, the period between the late nineteenth century and the early part of the twentieth century was a time of growing labor militancy in Massachusetts. The most serious local strike erupted in Lawrence, Massachusetts in 1912 when thousands of foreign-born laborers took to the streets to battle giant textile owners over the conditions of their employment. Although the Lawrence strike was the largest, there were many others. Between 1887 to 1929, labor engaged in over 7,200 strikes in

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<sup>4</sup>John Hammond, "Twentieth Century Manufacturers," in Commonwealth History of Massachusetts, ed. Albert Hart, Vol. 5 (New York: The States History Company, 1930) 376.

Massachusetts, an average of almost 175 a year.<sup>5</sup>

For whatever reasons--disenchantment over growing labor demands, a wish to expand in regions with cheaper resources, or simply a lack of--mill owners in the North grew reluctant to innovate in new technologies. The up-to-date textile mills in the South took on the added advantage of increased efficiency. The use of electricity to run textile-mill machinery, for example, was more easily adopted in the South than New England:

Textile mills were first established in South Carolina in 1893 increasing steadily in that state and in North Carolina, Georgia and Alabama, throughout the 'nineties. These mills put in electric motors from the beginning. Indeed, they were pioneers in adopting the electric drive. New England mills, more conservative, were nearly all electrically lighted, but for a long time they could not bring themselves to believe that electricity was competent to operate machines--or that it could do so economically.<sup>6</sup>

By the twentieth century, it was not "business as usual." Owners of the local mills and shoe companies began to invest their money in establishments located in other parts of the country. Thousands of Massachusetts' firms either went out of existence or cut down production. Between 1923 and 1933, one hundred fifty thousand manufacturing jobs had disappeared.

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<sup>5</sup>See George Coleman, "Labor and the Labor Movement," in Commonwealth History of Massachusetts, ed. Albert Hart, Vol. V New York: The States History Company, 1930) 429-452.

<sup>6</sup>John Hammond, "Twentieth Century Manufacturers," in Commonwealth History of Massachusetts, ed. Albert Hart, Vol. V New York: The States History Company, 1930) 376.

The Massachusetts mills that remained were seriously undercapitalized. In 1947, investment per employee in the South was \$320.50; investment per employee in Massachusetts was \$256.70.<sup>7</sup> But businesspeople were not the only ones losing confidence in the Massachusetts manufacturing community. As far back as 1950, there were business complaints about the reluctance of Boston banks to lend to local industries. For example, in hearings before the U. S. Senate's Committee on Banking and Currency, the U. S. Senator from Illinois criticized the unwillingness of Boston banks to lend to a particularly prospering industrial corporation:

I would like to know just what has happened to the business judgment of the Boston bankers, that they will refuse a loan so that the business has to come running down here to Washington to get government money . . . here is a business which is earning \$1,500,000 a year on the average for the last six years and whose present orders on hand aggregate \$40,000,000 when an investment of \$1,000,000 will free it from a rental charge of \$224,000 and still the Boston banks will not lend.<sup>8</sup>

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<sup>7</sup>Commonwealth of Massachusetts, Report of the Special Commission Relative to the Textile Industry (Boston, 1948) p. 39.

<sup>8</sup>U.S. Congress, House Committee on Banking and Currency, Study of Reconstruction Finance Corporation, 81st Congress, 2d Session, June - July, 1950, p. 293.

### Then Political Disengagement

The disengagement of capital started in the mills but soon spread to the political world. With less of their fortunes tied to the local economy, industrialists lost interest in controlling the state's public sector. Part of their attention turned to the federal government after the Interstate Commerce Act of 1887 and the Federal Trade Commission of 1914 had shifted the nexus of power from the states to the federal government. In addition, there was more to be gained from political involvement in other, less developed, states. Consequently, industrialists stopped running for public office in Massachusetts. Except for a small group of people of wealth who thought it their civic duty to serve in public offices, businesspeople soon limited their formal public involvement to serving on advisory commissions to the governor or legislature.

### The Massachusetts Business Community

Because the current business community was less directly involved in the affairs of the 'little' state, its views were not widely known. When members of the business community did get involved, it appeared that they acted in unison--to offset the powers of other interest groups like labor unions or

environmentalists or to advance policies in their own interests. Even critics of capitalism, who devote considerable efforts to the study of private enterprise, often

To understand the actions of the modern day business community, we need first to define what we mean by "business community." There are several ways to answer this question. One approach is to draw a statistical sketch of business firms in the state.

In 1975, manufacturing companies, for example, were still the most important employers in the state. But just barely: service-sector companies and wholesale and retail firms employed almost as many people. Altogether, the three sectors contributed seven out of ten jobs in the state.<sup>9</sup> Finance, insurance, and real estate firms, on the other hand, accounted for less than one job in ten.

The statistics on the Massachusetts private sector provide part of the explanation for the influence of different elements of the business community. For instance, within the manufacturing sector, the fastest growing part of the manufacturing sector were firms that made durable products, especially high technology machinery. High technology was important

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<sup>9</sup>Craig Moore and Steven Rosenthal, Massachusetts Reconsidered: An Economic Anatomy of the Commonwealth (Amherst: School of Business Administration, 1975) pp. 17-18.

in another way. Ten percent of the state's largest firms accounted for ninety percent of the corporate tax revenues.<sup>10</sup> Many of the biggest contributors were high technology firms. A number of small firms were new firms, just getting started. Others could be classified as marginal--long time establishments with little expectation of growth. Still, small firms served a purpose in this state. Over ninety percent of the establishments in Massachusetts employed fifty or fewer workers. More important, one out of every three jobs in the state was in firms that employed fewer than fifty workers.

A third group of firms--banks, insurance companies, and other financial institutions--were relatively insignificant employers of workers and contributors of state revenues. Yet, their importance lay in another direction--the state's financial community was the nation's most important source of private capital. It was also a major market for public bonds and notes.

Another way to define the business community is to talk about the owners or presidents of companies who are able to influence public policy. Who were the business leaders in

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<sup>10</sup>Statement of Daniel Breen, Director of Research, Department of Revenues, Fall, 1979.

Massachusetts? There were three types--the Technocrat, the Brahmin and the Family Person. Technocrats were well-educated, born in other parts of the country, who often moved here to attend one of the Massachusetts well-known institutions of higher learning and stayed or were recruited from elsewhere to become chief executives of large business establishments. Technocrats resided in the Concord and Lincoln, wealthy Boston suburbs, and were only "involved" in state politics if there was an issue that affected their company. Once involved, technocrats supported efforts to reduce public spending and government's interference in the marketplace. They believed others could do what they had done--achieve their jobs through hard work and use of native intelligence.

Brahmins had different characteristics. Born and bred in Massachusetts, their families made their money from shipping, commerce, and early manufacturing in the state. A small group of Brahmins had a tradition of service to the state and in the seventies, still served in official capacities. Those who worked were frequently involved in finance. They ran the major banks in the state. While fiscal conservatives, Brahmins were likely to display a feeling of social obligation to the state's very poor and needy. Although they enjoyed

having influence in the public sector, Brahmins abhorred publicity and media attention.

The third type of business leader was the "Family Person"--the owner of the small business. Many family persons ran second-or third-generation manufacturing establishments started by their father or grandfather. Displaying a wide variety of ideologies, they came from different ethnic and religious backgrounds and lived in any number of towns around the state. Although they had little time to get actively involved in state politics, they displayed an intense interest in events at the state house. To compensate for their time limitations, family persons depended upon their lobbyists to act on their behalf at the state house.

#### Collective Action

Even for business leaders, political access was always unequal. Consequently, business leaders who wanted political access often joined associations that could protect their sector's interest at the state house.

The most powerful business associations in Massachusetts were trade associations--groups formed around particular interests. The oldest of the state's trade associations in Massachusetts was the Boston Chamber of Commerce (Chamber). Chartered by the Massachusetts Legislature in 1909, the membership of the Chamber--a mixture of manufacturers, bank

executives, professionals and retail store owners--reflected the composition of the city's economy at the turn of the century. The first officers of the Chamber included the owners of a mill and produce company and a bank executive.

Like the city it represented, the Chamber has changed in composition over time. Its membership has been increasingly from the Boston-based supporting sector of the economy. In 1952, the Chamber renamed itself the Greater Boston Chamber of Commerce in an effort to attract members from surrounding cities. But the Chamber remained an organization of Boston banks, insurance companies, real estate firms and retail stores.

The Chamber has always had two objectives: the protection and enhancement of business interests in the state and the promotion of the city of Boston as an economic community. To attain these goals, the 1,300 member organization has been involved in the legislative and regulatory process of state government, especially in the areas of transportation and the environment.

The Chamber has not been a particularly effective lobbying association. One reason might be that many of its members, especially banks and insurance companies that were part of the growing sector of the economy, did not need to be in an association to have influence. But a former head of

the Chamber had another explanation. He blamed the Chamber's limited effectiveness on organizational difficulties--the inability of the Republican-based organization to work with a largely Democratic legislature. In contrast, he claimed that the Associated Industries of Massachusetts (AIM) was the most effective lobbying group in the state:

Today it lost its clout; what the hell can a Chamber of Commerce do when you've got a Democratic House and Senate? In the old days, when it was fairly evenly divided, you could make deals and sort of try to balance things out. The most effective lobbying organization now is the Associated Industries of Massachusetts.<sup>11</sup>

Who did AIM represent? The Associated Industries of Massachusetts was started in 1915 as a lobbying association for paper companies located in the central and western parts of the state. In the beginning, the association members were owners of small family businesses. By 1978, the majority of its 2,600 members were still officers of small manufacturing companies who benefited from the lobbying and service programs of the association. Only one-third of the members represented high technology companies.

Like other trade associations, AIM supported programs

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<sup>11</sup>Rick Smith, "An Uninhibited Eph Catlin Speaks Out," The Real Paper, February, 1976, p. 2.

that benefited its constituency. In particular, AIM favored policies that helped small, home-based manufacturing--marginal firms--with little expectation of future growth. This has translated into lobbying for policies that reduce the cost of doing business in the state.

Recently, however, AIM has worked with another newer association, representing the fast growing technology industry in Massachusetts. The Massachusetts High Technology Council (MHTC), only three years old, has just ninety members; one-half of the members, however, have started their businesses within the last seven years. Although small in number, its 1978 membership represented ten percent of the state's total employment.

Because high-technology firms were companies growing at a rapid rate, the Massachusetts High Technology Council favored economic policies that helped its members to expand.<sup>12</sup>

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<sup>12</sup>Since MHTC officials refused to talk to this researcher and AIM does not make public its membership, it is consequently impossible to verify this general economic description of MHTC and AIM provided by several officials of AIM. We did compare employment and establishment trends for firms represented on the board of the Massachusetts High Technology Council with general manufacturing trends in the state. Assuming AIM membership represents a cross-section of industry in the state, the analysis reveals that MHTC firms are likely to be above average in employment size and employment growth. See Appendix III.

Since their chief difficulty was a scarcity of skilled labor, the Council supported programs to attract or train qualified technicians. Such programs included job training, reduced personal income taxes (to attract skilled employees from other states) and a public school system that graduated people able to enter the technology field. In addition, the technocrats who ran the high technology companies were ideologically opposed to the state's array of social programs. They wanted state spending on social program to be cut, not only as a way of reducing taxes, but also because they believed in limiting government expenditures to capital-producing ventures. Finally, the High Technology Council, whose member firms were largely located in suburban communities, opposed public policies that favored cities.<sup>13</sup>

Firms join trade associations for two reasons--power and

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<sup>13</sup>One newspaper writer observed:

At fundamental levels of fiscal policymaking, the goals of the suburban-based high-tech industry are in conflict with those of the urban commerce and finance industries. Take the issue of property tax relief, it's not on the high-tech council's shopping list because its member firms are typically small and located in communities with low tax rates. More specifically, take local aid, the method of reducing property taxes; the council opposed last year's innovative formula for distributing local aid because a disproportionate share of state aid was routed to cities at the expense of the suburbs. (Michael Segal, "High Tech", The Boston Phoenix, 18 September, 1979, p. 48).

a commonality of views.<sup>14</sup> There was, of course, power in joining together and acting collectively to influence public policy. A president of a high-technology firm explained:

Businesses have to act collectively. If left to their own devices, business people will forget about issues and not do anything. By acting collectively, they present a stronger constituency, representing a whole group.

Often, size determined the involvement of a company in the activities of a trade association. The larger the company, the more its resources, the less its need for collective support and the more it was able to influence policy on its own. An official of another high technology firm described why his firm joined MHTC:

If companies are big enough then leaders can act on their own and have influence. for firms with \$100-200 million or less . . . getting together is far more influential than acting independently. [name of company] being very small, would have no voice without the Massachusetts High Technology Council. We don't have the resources or the staff to act independently.

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<sup>14</sup>Interviews with officials of three Massachusetts-based companies were conducted. The companies represented in the interviews included Alpha Industries, Monsanto Company and Adar Associates. Two officials were board members of the Massachusetts High Technology Council. One was active in Associated Industries of Massachusetts. In addition, interviews were held with five officials of the Associated Industries of Massachusetts, and officials from the Mass. Taxpayers Foundation and the Greater Boston Chamber of Commerce. The staff of the Massachusetts High Technology Council did not respond to repeated requests for interviews.

For smaller firms, there was no replacement for membership in a trade association: for example, the general manager of a chemical company located in Massachusetts cited the advantages of being a member of AIM:

We are a member of AIM because, overall, it helps us make the best use of limited resources. For education, we can take advantage of their expertise, their collective knowledge and their experience. AIM is a channel through which to make our opinions known to communicate with people outside of industry. AIM has the time, resources and expertise to look at bills coming out of the legislature and to determine their importance. From this, they publish lists of bills for us to look at.

Some firms preferred joining associations that they could influence. Others preferred limiting their memberships to trade associations that had similar objectives. In 1980, for instance, an official of at least one Massachusetts high-technology company was considering the possibility of dropping its AIM membership in favor of the High Technology Council, which had goals more in keeping with their own. Another never bothered to join.

[name of company] is a member of the High Technology Council because it represents the only association of high technology companies that have common problems and acts as a pressure on state issues. At present, we are a member of AIM but may disenroll because of their position on Proposition 2 1/2.

[name of company] is not a member of AIM because we have a limited budget and a limited amount of time. The firm is a member of MHTC because I personally agree with its goals and purposes.

### Legislators' Attitude Toward Business Associations

State legislators understood the distinction between association memberships. For instance, the vast majority of legislators interviewed in 1980 said that AIM represented most of the older manufacturing firms. At the same time, they knew that High Technology Council members were high technology growth firms and that the Greater Boston Chamber of Commerce, along with the Massachusetts Taxpayers Foundation, a tax research and lobbying group, represented banks and financial institutions.<sup>15</sup>

How did trade associations acquire influence at the state legislature? There were three ways to influence the political process--by being critical to the state's economic well-being, by providing assistance to legislators in their jobs, and by helping legislators at election time.

#### (1) Technical Assistance and Friendships

Above all, legislators valued the technical assistance given to them in their job by business lobbyists. There was, in fact, a relationship between influence and assistance. Of

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<sup>15</sup>See Appendix II.

the fifteen legislators responding in 1978, eleven named AIM as the most important lobbying group operating in the state legislature. With one exception, the same legislators also said that AIM's lobbyists knowledge of subjects made them powerful. The fact that AIM's lobbyists had been around a long time and understood the pressures of a legislator's job was also important to a number of legislators.

Two years later, the response was different. At that time, six of the nineteen legislators interviewed considered AIM to be the most influential trade association. But the variance was not as great as it might seem. In 1978, legislators were given a pre-selected group of six organizations active in economic policy and asked to select the most influential group. The 1980 interview was less restrictive; legislators were simply asked to name the most influential business lobbying group. Even so, AIM was the most frequently cited organization. The only answer given more frequently was that there was not a single influential lobbying group. Further, over one-half the legislators who responded to the 1980 question said that AIM provided them with the most technical assistance.

What did legislators mean by technical assistance? They valued the ability of AIM's lobbyists to analyze legislative

proposals, both in terms of their economic and political impact, and to suggest compromises that would satisfy differing interests. At one time, AIM's lobbyists were almost indispensable. Until the early seventies, for example, legislators had virtually no staff to research issues and evaluate the feasibility of bills. AIM's lobbyists often served that function. Sometimes they were even given an administrative role in the legislature. In the Commerce and Labor Committee, for example, AIM's lobbyists decided when the committee would hold hearings on bills.

Yet, AIM's influence did not come cheaply. Records kept by the Massachusetts Secretary of State indicate that AIM devoted considerable resources to their legislative duties, not only in providing technical assistance to legislators but in socializing with them. In an eighteen-month period, between January 1979 to June, 1980, wages and expenses of AIM's lobbyists at the legislature totaled \$122,000 versus \$25,500 for Massachusetts High Technology Council lobbyists. A significant proportion of the money went to reimburse lobbyists for meals and transportation. For instance, one AIM lobbyist recorded over \$1,500 spent on meals and transportation in a six-month period.<sup>16</sup>

The technical assistance given by AIM's lobbyists was important for a third reason--AIM represented firms that

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<sup>16</sup>See Appendix III.

employed over 487,000 employees, 20 percent of the work-force. While many of these firms were not expected to grow in the years to come, they still represented a significant and necessary segment of the voting community. In addition, as an old association, AIM officials had been active lobbyists at the state house for over a century. Some of their lobbyists were former legislators, lawyers or businesspeople whose only job was persuading state officials to act in their memberships' interest. For the most part, lobbyists held their positions for a long period, building up, over time, relationships with state officials. They became valuable friends who could give political advice to new legislators, treat old legislators to lunch and introduce sympathetic legislators to businesspeople located in their districts. In essence, AIM took on the form of a constituency, representing a sizeable segment of the business community who demanded public policies in their interest. In return, they offered services, like technical assistance, political advice, and free lunches, that made a legislator's life a little easier.

(2) Helping at Election Time

Business leaders were aware that state officials, especially legislators, placed the highest priority on getting reelected. In order to maximize their own influence, businesspeople naturally became involved in party politics. Business leaders were once active Republican party members. But after the decline in the state's economy, they reduced

their partisanship role and until the nineteen fifties, the business community maintained a close but less formal relationship with the Republican Party. Since they depended upon the party to support programs that would benefit them, business people provided financial contributions to the campaigns of Republican office-seekers.

The break came in 1958. By then a minority party, the Republicans had influence only in the State Senate, where it controlled fifty percent of the seats. Business leaders, especially AIM's lobbyists, expected that the Senate Republicans could block legislation that was not in their interest. Yet, just the opposite happened. To their chagrin, they found some Republicans joining their Democratic colleagues to vote for bills raising business taxes and to vote against pro-business bills limiting workers' rights.

Faced with depending upon the undependable actions of an ever increasing minority party, and the need for policies that assisted them during a period of economic change, business

MIDEC gave a total of \$500.00 and \$700.000, respectively, to the Senate Chairmen of the Taxation and Commerce and Labor Committees, \$400.00 to the Senate President and \$100.00 to the Chairperson of the Senate Ways and Means and the House Natural Resource and Agriculture Committees. In comparison, members of the High Technology Council gave amounts that never exceeded \$150.00 to any one candidate during the three-year

period.<sup>17</sup> Through the years, other businesses have also contributed to political campaigns. For instance, a group of business people with utility company backgrounds, called the Committee to Elect Responsible Public Officials, gave out more than \$30,000 to 85 candidates to the 1978 state legislature.<sup>18</sup>

But even more important than formal fund-raising organizations, long-time business lobbyists could always be counted on to buy tickets to legislator's testimonials and fundraising events or to publish complementary articles about cooperative legislators in trade journals sent to their districts just before election time. Frequently, lobbyists persuaded local businesspeople to buy tickets to similar election functions.

(3) Ensuring prosperity

Growth firms have had access to state government because of their importance to the future of the state's economy. There are two types of growth firms. First are the set of firms expected to expand and increase employment in the state. An excellent example of this type of enterprise was the fast-growing high technology companies. Since Massachusetts officials believed they needed high technology growth to ensure

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<sup>17</sup>See Appendix II.

<sup>18</sup>Michael Segal, "High Tech," The Boston Phoenix, p. 48

continued employment in the future, high technology officials were often asked to serve on public commissions or to evaluate legislation proposed by legislators and the governor. As newcomers, unfamiliar with the legislative process and ineffectual lobbyists, however, they had more influence in the governor's office than with state legislators.

In addition, some firms are growth firms because they provide a service or infrastructure necessary for the expansion of all other industry in the state. Because the state was greatly dependent upon financial institutions for its economic well-being, financial institutions were this type of growth firms.

Banks were important for several reasons. Like other states, the Commonwealth used tax-exempt bonds to finance capital projects. Not only did banks and insurance companies purchase a significant amount of these bonds, but acting as the state's agent, banks also issued the bonds. In doing so, banks determined the interest rate to be paid. When required, they also purchased short-term state notes. But the financial community's importance extended beyond the public sector. Insurance companies and banks were also the chief source of funds for land development projects and business loans--prerequisites to a healthy, growing economy.

Unlike other businesspeople, officials of the financial

community did not need to join groups to acquire influence. Since their support was indispensable to a prosperous economy, individual business leaders representing major banks and insurance companies had immediate access to state officials. The presidents of major Boston banks were valued advisers to the governor. In addition, because the state most needed outside funds when its own revenues were down, the bankers' role and influence in the public sector expanded during periods of recession or economic uncertainty. At times, they appeared to control large segments of public policy.

For example, in 1975, the state was recovering from a major recession. State revenues were declining and there was talk about a budget deficit, which could be as high as one-half a billion dollars. A fiscal crisis was dangerously near. One hundred and twenty million dollars in state bonds were in danger of going in default. Nor surprisingly, Governor Dukakis turned to the biggest bank, the First National Bank, to buy a portion of these bonds.

The First National Bank had always taken a position that the state government should reduce its spending and use the savings to cut business taxes and the tax on capital gains. A representative of the First National Bank agreed to help the

governor if he in turn complied with some of its terms.<sup>19</sup> Most specifically, he demanded that the governor support increasing the sales tax from three to six percent and broadening it to include clothing and that there be a major state expenditure control program. The governor refused to sponsor the tax measure but agreed to control state expenditures.

Chester Atkins, a young, liberal state senator in 1975, now Chairman of the Senate Committee on Ways and Means, described the power exerted by the banks during this period. In an editorial he wrote for the Boston Globe, the senator said that multinational commercial banks had become another tier of government, able to dictate the terms and conditions of public policy in return for financing a part of it:

Now there appears to be an additional branch of government, one that is anonymous, unelected and unaccountable--the multi-national commercial banks. We must now also ask if those financial institutions will provide the government access to funds, through the bond markets, to finance the proposal.

State government and the financial community have wrapped themselves up on a self-perpetuating cycle, pursuing tired and imprudent strategies for raising, and subsequently spending, public capital. The situation is a comfortable one;

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<sup>19</sup>Account reconstructed through interview with Harriet Taggart, Director of Housing, Metropolitan Area Planning Council, August, 1978.

the financial community is satisfied, able to tell the state what to do and when to do it; and responsibility for voting for taxes to finance bond expenses on the grounds that banks held a gun to the state's head.<sup>20</sup>

But banks were not the only industries critical to the state's economy which took advantage of the 1975 fiscal crisis. To increase state revenues during a period of high unemployment in 1971, the governor and the state legislature passed a one percent gross investment tax on domestic life insurance companies. In 1975, over the objections of the life insurance industry, members of Governor Dukakis' staff met with executives of two major locally-based insurance companies to discuss a proposal in which insurance companies would buy state bonds in return for reducing their tax burden. Although the proposal was never formalized, the insurance companies bought state bonds. Three years later, the Democratic governor actively lobbied through the legislature a bill eliminating the insurance tax.

#### Playing by the Rules

Business leaders agreed on broad goals--more freedom for business to operate in the marketplace, lower business taxes, reduced social programs--but they frequently disagreed both about the specifics of various policies and the priorities

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<sup>20</sup>Chester Atkins, "Banks Gain Critical Power Over Sale of State Bonds," Boston Globe, 9 January 1976, p. 23.

placed upon them. Members of the business community, including officials of the trade associations, were aware of these differences that often manifested themselves in disagreements between the associations. For instance, several business leaders thought that the Associated Industries of Massachusetts was more moderate in its views than the Massachusetts High Technology Council:

Every business will not always agree on policies. MHTC is a homogenous group that tends to agree. Within AIM, there are older, varied industries and you probably wouldn't find much agreement. MHTC is not looking for a reduction of business taxes. Rather we are concerned with taxes, government structure and education as it affects our ability to attract and keep good employees.

AIM membership is diverse. . . the problems of these firms may be different and because of its diversity, AIM won't take a firm position but rather a watered down [one].

A few legislators understood the difference between the trade associations. For instance, two state representatives made the following comments about the demands made by AIM and MHTC:

The lobbyists for AIM and the High Tech Council sometimes have conflicting demands. AIM is less radical in tax limitation proposals. MHTC is unrealistic, technically incompetent and. . . is going in a different direction.

The High Tech Council is reaching to different areas, new horizons. AIM has to take care of established industries.

Yet only seven of the nineteen legislators interviewed in

1980 observed the conflicting demands among trade associations. The others either saw more similarities than differences or had too little contact with business leaders to express an opinion.

Why were legislators less aware of the differences than members of the business community? Generally, business leaders believed that their common interests required that differences between them be private, out of the view of the media or legislature. One business official said that there was no overriding reason to keep differences quiet, but ". . . if there's nothing to be gained, why bother?" Another believed that businesses did not like to air differences publicly because they ". . . are loathe to be controversial and go against the main stream." An official of a trade association said that the interrelationship between businesses and business groups was already complex and to disagree publicly would make it harder to work together.

As a result, trade associations and business leaders who lobbied the state legislature developed an informal code of behavior that allowed them a facade of public unity while advancing often separate objectives. The code had three rules.

Rule One: go where your self-interest is greatest<sup>21</sup>

This was the most important rule. Because trade associations and major institutions must set limits on its lobbying efforts, each concentrated on what it perceived as its most important programs and policies. They became experts in that area of public policy. Since AIM was concerned about the cost of doing business, its lobbyists became knowledgeable in tax law and labor legislation. The Chamber of Commerce was most active in city programs--environmental regulations and urban transportation. The High Technology Council worked on job training issues. Utility companies were key lobbyists on health issues. The Boston Bar Association, a lawyers association, concentrated on inheritance and administrative tax laws, two important areas of client concern.

Thus, business lobbyists had two roles; on issues they were concerned about, they were either primary or secondary advocates. Primary advocates were lobbyists who took the lead in a particular aspect of public policy that was very important to them. They were experts and the most active lobbyists on that issue. Other business lobbyists generally respected the territory of primary advocates. Unless the issue was extraordinarily critical to more than one type of business, they preferred not to take on the function as primary advocate if another business group had already made that claim.

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<sup>21</sup> Most of the business people interviewed denied there were rules of conduct guiding their behavior. However, their actions often contradicted such denials. The rules that follow are based on observations of the author who spent several years working at the Massachusetts State Legislature.

Instead, they become secondary advocates--interested in a particular issue, willing to be party to a compromise, but not the leaders in any negotiations that took place. In essence, the rule limited competition between the two segments of the business community to the most important issues.

Rule Two: Cooperate only when major gains are to be made or major issues to be avoided

Business leaders sometimes collaborated on major policies when it was mutually beneficial. In such situations, AIM, Greater Boston Chamber of Commerce, or leaders of the banking community would act as the leader in getting others to work in the coalition. The groups in the coalitions depended upon the issue. For instance, the Greater Boston Chamber of Commerce brought leaders together to help them lobby for a better airport and seaport. AIM worked with building contractors to minimize environmental regulations slowing down the process of land development. Several Boston banks joined with other businesses to appeal a law denying corporations the right to finance public campaigns over laws. General Electric lobbyists teamed up with AIM's lobbyists to limit the provisions of a maternity-leave provision in the health insurance law.

Rule Three: Always maximize the appearance of power

The final rule dealt with political survival. Business leaders were uncomfortable when trade associations or businesses appeared to be increasing their power to influence. In

such a situation weaker partners preferred collaborating with the influential party rather than risk losing their own political access. Specifically, the growing importance and influence of the High Technology Council in Massachusetts state government has led to new alliances. Fearful of losing power on Beacon Hill, AIM and the Boston Chamber of Commerce have recently linked up with high technology companies and the MHTC on a number of projects. Some of the new collective actions included:

The broad-based Boston Chamber of Commerce has been grooming for its presidency the head of a suburban (and high tech) company . . . Associated Industrial of Massachusetts and the Council have linked up to co-sponsor a tax-cutting initiative petition for the 1980 ballot. And the titans of the state's commerce, finance, insurance and utility industries are banding together for the first time to form a local equivalent of the National Business Roundtable.<sup>22</sup>

### Conclusion

As described, the business community in the Commonwealth of Massachusetts is far from monolithic. Because of their diversity and different needs, individual firms and trade associations sought access to public officials in order to advance their own particular interests. They had three ways to influence. Growth firms were critical to the state's economic future and often did not need to do anything else but exist to gain influence.

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<sup>22</sup>Michael Segal, "High Tech," The Boston Phoenix, p. 48.

But other firms joined groups like AIM and combined efforts to first, provide technical assistance to public officials and second, help re-elect politicians to office. Essentially, such associations took on the characteristics of a public official's constituency. Although being a growth firm was the easiest way to gain influence, it did not always result in the most power. As we have seen, legislators rewarded access to associations that served them politically.

APPENDIX III

Trade Association Expenses  
Incurred While Working on  
Legislative Matters--Massachusetts  
State Government  
January, 1979 - June, 1980<sup>1</sup>

	Associated Industries of Massachusetts	Mass. High Technology Council
Lobbyists' salaries	\$ 79,250	\$12,351
Lobbyists' reimbursement <sup>2</sup>	8,275	564
Other expenses	34,444	12,719
Total	121,969	25,635

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<sup>1</sup>From records kept at the Department of State Secretary,  
the Commonwealth of Massachusetts

<sup>2</sup>Includes transportation, meals, and other expenses  
incurred by legislative agents in connection with their  
lobbying duties.

Contributions to the Legislature  
Leadership by Member of the  
Boards of Directors and the  
Lobbyists from Associated Industries  
of Massachusetts and the  
Massachusetts High Technology Council  
(1979-1980)

Title	Source	Contribution Amount
Speaker of the House	AIM PAC <sup>1</sup> Massachusetts Industrial Development and Economic Council (MIDEC)	\$ 100.00
Chairman, House Ways and Means	---	none
Chairman, House Taxation Committee	MHTC Lobbyist	100.00
Chairman, House Natural Resource and Agri- cultural Committee	AIM PAC (MIDEC)	100.00
Chairman, House Commerce and Labor Committee	----	none
Senate President	AIM's Board of Director(member) AIM PAC (MIDEC) AIM lobbyist	100.00 400.00 50.00
Chairman, Senate Ways and Means	AIM PAC (MIDEC) MHTC's Board of Director (member)	100.00 350.00
Chairman, Senate Natural Resource and Agriculture Committee	AIM PAC (MIDEC), AIM's lobbyists	700.00 60.00

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<sup>1</sup>PAC is Political Action Committee

APPENDIX IV

Change in Employment Growth for High Technology Firms  
 Associated with Massachusetts High Technology Council  
 vs. Manufacturing as a Whole.  
 Massachusetts, 1972 - 1978<sup>1</sup>

High Technology Employment Associated with the  
 Massachusetts High Technology Industry<sup>2</sup>

SIC represented	Employment, 1972	Employment, 1978	Weighted Change in Employment, 1972-1978 <sup>3</sup>	Weighted Percentage Change in Employment for All Firms, 1972-1978
15	26,494	14,716	-117	--
26	32,392	30,424	-19	--
28	15,541	16,368	33	--
30	33,164	31,836	-39	--
33	14,848	14,479	-3	--
34	40,871	49,542	346	--
35	71,928	86,944	3604	--
36	82,807	86,213	987	--
38	33,298	50,977	5126	--
73	52,131	81,917	893	--
89	24,771	30,616	58	--
Total	56,726 <sup>4</sup>		11,225	19%

Manufacturing Employment

	Employment, 1972	Employment, 1978	Change in Employment, 1972-1978	Percentage Change in Employment, 1972-1978
All Manufac- turing in Massachusetts	62,994	650,841	28,847	5%

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<sup>1</sup>The employment change for high technology firms were weighted according to their representation on the Massachusetts High Technology Council. For instance, if one percent of the Council consisted of firms under SIC 15, then it was assumed that SIC 15 firms on the Council accounted for one percent of the change in total employment for that classification. Statistics came from U.S. Department of Commerce, County Business Patterns (Washington D.C.: Government Printing Office, 1973 and 1980).

<sup>2</sup>SIC classifications for the 80 firms on the Massachusetts High Technology Council came from George D. Hall, Directory of Massachusetts Manufacturers, 1980-81 (Boston, 1981).

<sup>3</sup>Employment adjusted for representation on the Massachusetts High Technology Council.

<sup>4</sup>Weighted using method described in Footnote 1.

CHAPTER IV  
RESOLVING CONFLICTS

Introduction

One critical objective, accepted by state officials, dictates the formation of policy in the 'little state'. That objective is to institutionalize a system of government in which interest groups are focussed on narrow concerns, rather than broad issues. Legislative committees, for example, have specialized areas of jurisdiction. In Massachusetts, legislative committees also extend the narrowness of their areas of jurisdiction by subdividing subjects even more for the purpose of holding hearings and voting on legislation. By doing this, problems and conflicts become manageable in size and solutions limited in consequence. In addition, legislators also avoid bringing together diverse groups of unhappy constituents who could demand reforms impossible to meet.

Decentralizing power is also an objective of most business leaders. This is especially true of business leaders with the resources to lobby legislators on a multitude of issues. They believe that they have more power to influence public policy if there is a lack of unity among the electorate and decisions made in a decentralized fashion. As the head of a trade association explains:

We believe that the pluralism of society would protect us. I fear the consolidation of power. If you have increasing power, how do you control it?

I. Business Tax Policy

Until recently, this narrowness of focus has been used to great advantage by AIM's lobbyists to control the formation of business tax policy. Their motivation was to reduce business taxes, a cost of doing business most directly controlled by state legislators. Business tax law can be very technical and AIM's representatives have displayed a knowledge of the field that often surpasses legislators and their staffs. By proposing tax changes that were complicated and not easily understood by the general public, AIM's lobbyists have minimized potential conflicts between interest groups and been given enormous control over the formation of new business tax legislation.

The AIM Strategy

Obviously, one way to look at business taxes is within the context of the general structure of tax burdens and state needs. How much should business pay to run the state in relation to other groups in society? What was the optimal amount of constituent service? Just as obviously, these were questions that AIM's officials, intent on reducing their cost of doing business, wished to avoid. Instead, AIM's argument for reducing business taxes was that it would induce firm expansion.

The combination of a Democratic legislature, with a liberal spending philosophy, and a stagnant industrial base, made taxes a focus of AIM's attention. Since the turn of the

century, AIM has denounced what they called the "bad business climate." The "bad business climate" was caused by social and economic legislation, which at one time or another, included minimum wages, protective labor laws for children, the graduated income tax and high business taxes.<sup>1</sup>

While taking public positions on a number of issues, AIM, through its lobbyists, concentrated its efforts on a small number of topics. As explained, they became technical experts in the very technical field of business tax law. Through their interest in the subject, AIM's lobbyists developed working relationships with legislators on the tax committee. Legislators began to think of AIM as businesses' representative on business tax issues.

AIM's leaders were pragmatic; they knew the difficulty of revising the tax laws. They had two principles by which they chose their business tax strategy. Obviously, any change in the business tax law must serve their interests. In addition, changes must have some possibility of success. The principles evolved from experience. AIM's officials have tried in the past to convince public officials to lower business tax rate. But state officials, faced with rising costs and expanded social programs, have been reluctant to limit (and sometimes

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<sup>1</sup>See Robert L. Kann, "Social Legislation and Massachusetts' Business Climate." (Boston Urban Planning Aid, 1976).

have raised) the more important revenue producing property or income taxes. As a result, they were reluctant to reduce business tax rates when consumer taxes were constant or increasing, a set of events that could anger the electorate.

AIM consequently settled upon a second-best strategy. Rather than demanding a reduction in the tax rate, the organization opposed any increases in the rate (an important strategy when other taxes were increasing). Furthermore, they asked the legislature to exempt manufacturers from any new taxes. Thus, in 1966, when public officials were considering a sales tax to increase state revenues, AIM's lobbyists successfully persuaded the legislature to exclude business machinery and materials from the tax in order to avoid the economic consequences of increasing the cost of doing business.

Finally, AIM's leadership decided that tax incentives--specific business deductions and tax credits given to businesses for specified actions--would be a surrogate for tax rate reductions. They had several advantages. Since incentives reduced the effective tax rate for firms taking advantage of them, the incentive laws could specifically be written to benefit their membership. But, more important, since the actual tax rates were not changed, people would not be aware of the tax losses accruing from incentives. They would not engender popular opposition and politicians would be more willing to vote for them.

### The Political Response

Until the last decade, the two major political parties in Massachusetts had distinctly different philosophies. The Republican party, suspicious of state intervention in the private sector, stood for limited government, a sound fiscal base and minimum government interference in the market place. Taxes were to be avoided but, if the state needed them, a sales tax was preferable to an income, business or property tax.

The Democratic party, on the other hand, believed in government as an intervenor in the economy to solve unequal distribution of income and imperfections in the marketplace. The party stood for programs protecting the worker and the needy. Party members usually preferred a tax structure that burdened the poor the least and the rich the most.

Members of both parties, however, have been reluctant to make major changes in the tax structure, especially when they involved a redistribution of income. Their political instincts told them that the electorate supported tax reductions and disapproved of tax revisions which might increase their taxes. They approved of major revisions in the tax laws only with the greatest reluctance. Often this happened when state revenues were down and the only other alternative was a drastic reduction in electorate services. But if taxes were to be raised, which tax should be increased: sales, income, property, or business taxes?

At one time, the Democrats would have said "raise business taxes." But since the Second World War, the Democratic party had been trying to win business' favor. Both parties began competing for the label of being more pro-business. As a result, a politician's position on business tax matters was more a function of his particular office or leadership role than his party label.

For instance, governors behaved differently than legislators. The state's top officials, the office holders ultimately responsible for balancing the state budget, were less sympathetic to business tax reduction that could reduce state revenues than state legislators. In 1968, for example, the Democratic chairman and vice-chairman of the Joint Taxation Committee advocated a reduction in the corporate income tax rate from 7.5 percent to 7 percent. They said that reducing the business tax rate would build a healthy economic climate:

There is no reason why the state can't do as the federal government has done successfully and use sound tax policy to build a healthy economic situation. The bill setting a special tax rate for manufacturers who must compete with those in other states to survive, indicates that our committee is not just interested in raising revenue but also in developing economic policy that can generate even more revenue in the future.<sup>2</sup>

But the Republican governor, John Volpe, opposed the revenue reducing proposal, and it died in the legislature

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<sup>2</sup>Quote of Senate Chairman George Kenneally, Jr. of the Joint Legislature Taxation Committee in "They Write Our Tax Laws: A Key Committee Helps Build a New Image for All Legislature While Searching for More Dollars for the State," Industry 33, No. 8 (June 1968): 32.

after an unsuccessful attempt to override the governor's veto. A similar event occurred the following year. By that time, John Volpe had left the governor's office for a federal appointment in Washington. His replacement was Frank Sargent, a liberal Republican.

Even with employment at an eleven-year low in the state that year, businesspeople were talking about the need for business tax reductions to induce more prosperity in the state. The newly elected Democratic Speaker of the House, 34-year-old ex-school teacher, David Bartley, believed that a reduction in the corporate income tax would reduce business costs, expand production and ultimately create more jobs. But once again, a Republican governor disagreed. Sargent called business tax rate reductions a simple break for a special interest group. Once again, a Republican governor vetoed a Democratic-sponsored business tax reduction.

But while governors were loathe to support reductions in business taxes, there was less resistance to tax incentives. Governor Sargent, for instance, said that tax incentives were valuable because there was a cause and effect relationship between the objectives of the incentives and their accomplishments. In addition, the revenue loss was small. But, governors were not the only supports of tax incentives. Legislators also liked the idea of reducing business taxes while keeping the rate constant.

The demand for specially designed tax credits and incentives by the business community has increased over the past

decade. In part, the demand was accelerated by AIM's realization that the competition between the two parties and the Democrats' desire to appear more pro-business could be used to their advantage. In 1970, during a period of heavy business criticism, the Republican governor supported a number of Democratic proposals--including a bill which gave manufacturing companies a one percent tax credit for investing in new plant and equipment. He later endorsed tax deductions to industries for installing pollution equipment as well as tax credits for hiring disadvantaged workers.

By the end of the seventies, over ten tax incentive laws were passed by the Democratic legislature. They included a new 3 percent tax credit on new investments, a limit in tax liability of expanded business payrolls, a tax credit for hiring individuals from public assistance rolls and a 100 percent deduction for industrial water treatment facilities and air pollution control. Called Mass Incentives, a state official proudly announced that they were:

. . .positive steps to help keep business profitable and make Massachusetts a state with a healthy tax climate.

Business leaders also praised the politician's willingness to pass new business tax incentives. In particular, the business community, through AIM, was delighted by the Democratic leaderships' new role in getting the incentives through the legislature. They finally had a mechanism--

albeit limited -- for reducing their business tax burden.

### Writing Tax Laws

Before the popularity of incentives, legislators were often faced with the difficult decision about how to say 'no' to the business community or other groups wanting a tax change without offending it. One tactic used by legislators reluctant to alter the tax structure was to decide that they did not have enough information on a subject to make a decision. They then put the matter of tax revision in some kind of study commission. Because of the continual business demand for changes in their taxes, the subject of many studies has been business taxes. Often times, their conclusions were contradictory. For example, a 1959 study done by the Commission on the Audit of the State said that the business tax did not influence the location of firms. But two years later, the state tax commission claimed that the complex business tax laws made it difficult to attract and keep industries in the state.<sup>3</sup>

Except under unusual circumstances, significant changes in the tax rates were initially proposed by the governor, special commissions, or less frequently, business associations. According to one long-time tax administrator, it often took several years for the legislature to agree to change the law:

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<sup>3</sup>Commonwealth of Massachusetts, Audit on State Needs: New Industries For Massachusetts (Boston, 1959) House 2649; Massachusetts State Tax Commission, (Boston, 1962) H. 3658.

In most cases, major tax legislation went through only if the governor proposed it. In rare cases, business associations made recommendations. Sometimes can get changes if special commissions. . . put forth ideas that could be enacted. Their ideas may not immediately get enacted but a few years down the road someone will pick it up and it will. . .

There were some exceptions. Business tax changes that were technical changes in the formula or eligibility requirements and did not change the rate, were, in fact, relatively easy to implement. The reasons were obvious; technical changes in the law were unlikely to become a public issue and anger private citizens, jeopardizing the jobs of state officials. In addition, as the tax administrator explained, technical changes in the laws would often have less consequence for public programs since the changes affected a very small percentage of the budget. Because they dealt with business taxes, a consensus about revisions was also easier to arrive at:

I think it is easier to change business tax law than personal income tax law. . .not dealing as much in revenue. . .also dealing with more compact group. . . it is a limited taxpayer's group since 90 percent of the tax from business (is) from ten percent of the group.

The House and Senate Chairman of the Joint Legislative Tax Committee and their staff oversaw the writing of the tax revisions. But there were problems with the process. The staff of the committee, many of whom were appointed because of political connections, had little tax experience when they arrived. They learned on the job. But staff salaries were low, and there was substantial employee turnover. Thus, only

a few acquired the experience to be well versed in the intricacies of business tax law.

Most of the chairmen were not technicians and depended on others--their staff, officials from the Department of Revenues or lobbyists--to advise them. But at times, they could not find anyone who could explain the significance of a proposal before the committee. For example, faced in 1978 with an insurance led but governor supported bill to revise the insurance tax laws, the committee chairman could not find anyone knowledgeable in insurance tax laws. As one committee staff member recounted, the legislature had to pass the insurance bill without ever understanding its content:

No one knows about insurance tax laws. . .even the insurance experts don't know. . .still don't know why the insurance companies were willing to swap a tax on their net investment for a one percent rate on the gross investment. . .key is the interpretation of the IRS code. No one up here has that knowledge.

The Committee passed the bill because the governor and the insurance companies warned of ominous results if they didn't. In fact, insurance companies threatened to leave the state if the legislature did not act favorably. But insurance companies were obviously not alone in wanting their taxes reduced. As a result, there was a difference of opinion among different business sectors about which tax changes should be made by the legislature. But differences among members of the business community were rarely publicized. Unless one

sector's proposal threatened another sector's power or profits, the business community took a laissez-faire approach to each other's suggestions. If there was an important self-interest issue, a business lobbyist was likely to talk privately to a legislative leader about revising or stopping the other's bill before it became law. For instance, AIM's lobbyists were displeased by a Jobs for Massachusetts proposal to give tax credits to firms hiring disadvantaged workers. But rather than publicly disagree with the organization, the manufacturing association's lobbyists went along with a watered down version of the bill.

AIM's lobbyists made reasonable requests. One example of that practicality was AIM's acceptance of tax incentives. While the manufacturing association preferred a reduction in the tax rate to tax incentives, its leaders realized the political popularity of tax incentives. A former public official explained AIM's philosophy:

Tax incentives (are) used more now because of political acceptance. . .I think. . .AIM is practical. . .knows not to put all its efforts into losing propositions.

This reasonableness combined with their relationship with legislators and technical expertise gave AIM unusual access. The tax committee naturally turned to AIM's lobbyists when they wanted the private sector's opinion about how to improve the business tax:

We ask what is the realm of the possible this year. . . if there is a little piece of legislation that will really help [we] emphasize that.

A key committee staff recounted the exchange that took place with AIM's lobbyists in 1978:

We said. . .all right. What do you want this year? They said the export sales. I said that is enough.

"Export sales" was shorthand for revising the tax law to exclude export sales from the apportionment formula. The formula determines the amount of taxes a business pays to the state. Although the bill easily passed both houses and was signed into law, the change probably had a major impact on state revenues. While no cost estimate was ever made on the change, one staff member estimated that the change would cost the state as much as \$50 million a year. As he said:

They got a big present with the export exclusion and no one will ever know since we do not have the research capability.

Why was it passed? According to the same staff member, the bill was proposed:

. . .to help a couple of local businessmen who were doing a lot of export sales. It was one of those things that you have to give up for the business climate.

### A Display of Conflict

Up to this point, business tax policy has illustrated the rule of conduct by which one group of firms--marginal firms--controlled the formation of tax policy because of the reluctant acceptance of their leadership by growth firms. Yet recent events have given evidence of the fragility of such resolutions. Growing electorate dissatisfaction with rising

inflation and government spending created the conditions by which the organizations representing marginal and growth firms were forced to take different public stands on the direction of tax policy. The impetus for this situation was the Citizens for a Limited Taxation (CLT), a libertarian organization which organized a petition drive to place "Proposition 2½" on the November 1980 ballot in Massachusetts. The proposition limited municipal expenditures to 2½ percent of the full and fair market value of property.

At first, both AIM and MHTC supported the proposal and assisted in collecting petition names. MHTC had always advocated reducing personal and property taxes--an action it thought could help attract skilled employees to the state--as the most effective pro-business tax policy the state could implement. Thus, CLT's proposal was attractive to the MHTC members. In addition, MHTC members viewed their participation in a successful referendum campaign as a way of getting more power to influence public policy. The chairman of the legislature's taxation committee did not even believe that those behind the MHTC support of Proposition 2½ liked the proposal:

High Tech [members] are forcing "2½" even though they don't want it and know it won't work. They are using it to get leverage for what they do want.

As November approached, however, AIM's officials were unhappy enough with the referendum to split from the coalition. Although they initially supported the bill out of a sense of wanting to be united with the rest of the business community, there were several problems. Most important, a

significant number of legislators, including the leadership, were vehemently, but privately, opposed to the referendum and AIM feared a loss of access at the legislature if they continued to support the bill. Further, the associations' officials worried that the success of the proposition, which was on the ballot in the form of a law and a constitutional amendment, would set a precedent for changes in the constitution that consolidated state power. They preferred a decentralized to a centralized system of government.

Yet, even with their influence, AIM's lobbyists could not convince legislators to support a compromise proposal. As a result, the referendum passed easily, with over a ten percent plurality. Although MHTC's support of the proposition angered many legislators, the association gained added respect at the state house. In a rare display of public disagreement, MHTC had won an important battle with the older and more influential trade association, AIM, over the proper business tax strategy. The consensus over the formation of business tax policy no longer existed.

## II. Environmental Policy

The goal of economic growth and prosperity often conflicts with the desire for a clean environment. As in other issues, legislators are interested in developing a consensus among different groups on an environmental policy. In this situation, the major party in the effort to improve the

'little' state's environment are representatives of special interest groups representing a small, but vocal, segment of the electorate. Business interests most concerned with the detrimental effect of a strong environmental policy include AIM, utility companies, and construction companies.

Resolution by Task Force: The Environmental Movement

Who initiates reforms? The assumption among those who believe that reforms are legitimate is that some interest groups motivate politicians to accept change. But oftentimes, other conditions were present that sometimes aided and sometimes directed the public movement.

A typical example of reform in the Commonwealth of Massachusetts was the strengthening of the environmental policy. The Commonwealth of Massachusetts has always had a concern, albeit limited, for maintaining a decent environment. The country's first state conservation body was started in Massachusetts in 1891. The state was the forerunner in the movement to protect wetlands from unruly development. It was also the leader in forestry control and in legislating incentives to entice localities to preserve open spaces.

But the Commonwealth's preoccupation with an improved environment really began in the nineteen seventies. There were a number of reasons for the timing. Most significantly, 1970 was the year of the environment--not only in

Massachusetts but around the country as well. This was a period in our history when grass roots organizing was focussed around the issue of a cleaner environment, the culmination of which was Earth Day, celebrated by millions of U.S. citizens. The issue that captured the attention of the media, also captured the attention of the state and local officials.

Whether the electorate in particular Massachusetts districts really cared about environmental policy or voted elected officials into office on the basis of their record on environmental legislation was frequently an unknown factor. What was known, however, was the favorable media coverage given to environmental activists; politicians thought that the same kind of publicity might be given them if they supported the efforts of environmentalists.

In fact, the actual state house lobbying done by the handful of environmental associations--The Sierra Club, the Massachusetts Forest and Parks Association and the Audubon Society--had the reputation of being relatively ineffective.<sup>4</sup> As inexperienced lobbyists, they too often limited their advocacy to speaking at public hearings and issuing information sheets to legislators, neither of which were particularly effective techniques.

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<sup>4</sup> For a discussion of the politics of the environment, see Laura Lake, "Massachusetts: A Case Study of the Politics of the Environment" (P.H.D. dissertation, Tufts University, 1972.)

There were several other reasons for elected officials to support environmental legislation. The leaders of both parties endorsed the concept of environmental reform. The Republicans in the legislature knew that the governor of the state, Republican Frank Sargent, had made the environment one of his highest priorities.<sup>5</sup> The Democrats in the legislature were also aware that their two leaders, the Speaker of the House and the Senate President were proponents who had sponsored a local "Earth Day" to draw attention to the issue.

To add to the atmosphere, the vast majority of business community leaders were either silent or not strongly opposed to new environmental legislation. Although some speculated that business leaders were naive about the effects of new legislation, it was also true that business leaders were aware of the movement's strength and hoped merely to have a moderating influence on the direction of that policy.

One thing business wanted was to convince the legislators to provide them with tax credits and abatements and low interest loans to meet increasingly stringent pollution standards. In 1970 alone, over fifty-eight environmental bills were passed and signed into law. Most dealt with water-

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<sup>5</sup>See Commonwealth of Massachusetts, Address of His Honor The Lieutenant Governor, Acting Governor of the Commonwealth Relative to the Concerns of the Commonwealth, (Boston, 1970) Senate No. 1.

pollution abatement facilities and standards and included several business incentives.

The next several years were increasingly productive ones for environmentalists, culminating in 1973 when two major laws were enacted by the Commonwealth. One reorganized the environmental agency from forty-nine decentralized departments into four, giving one department, the Department of Environmental Quality Engineering (DEQE), the power to issue health and environmental permits required by municipalities and expanding plants. The second significant law passed that year was the Massachusetts Environmental Protection Act (MEPA), a statute that gave the newly reorganized Executive Office of Environmental Affairs the right to review and ultimately reject new development in the state.

#### The Speaker Halts the Movement

But two years later, the situation had completely changed. The economy, which began to decline in the early seventies, was now in the midst of a serious recession. Instead of the environmental movement, the media now talked about the energy crisis and the high cost of oil. There was also a complete turnover in political leadership.

The new governor, Michael Dukakis, preferred secretaries who were young, intelligent generalists. Often, they had no special training in their department's area of responsibility. For example, Evelyn Murphy, the Secretary of the Office of Environmental Affairs, was an economist rather than an environmentalist. The new secretary was obviously aware of

economic conditions. She was also aware that the governor placed a high priority on improving the state's economy. From the start, Dr. Murphy broadened the legislative mandate of her office from one of protecting the environment to protecting the environment and improving the economy. As an economist, she had an expansive definition of economic growth -- one which included revitalizing the older cities, and nurturing small but important sectors like the fishing industry. In her view, the goals of a strong economy and environment were interdependent, not conflicting. To meet these goals, she saw her job as finding shared objectives among different interest groups. Often, this meant resolving conflicts between different economic interests wanting access to natural resources.

Most lobbyists understood and accepted the enormous powers given to the new secretary under MEPA because, as one lobbyist explained, " . . .the downtown banks and bondholders just learned to live with it." But one group didn't: either through ignorance or lack of information, building contractors and road builders, principal subjects of the law, never really understood the regulations' implications until they were enforced.

Once they realized the restrictions placed upon them by MEPA's regulations, the builders turned to the legislative leadership for relief. While sympathetic to business's

complaints, the Senate President, Kevin Harrington had a good relationship with Secretary Murphy and his staff had already resolved their MEPA problems with the secretary.<sup>6</sup>

The Speaker of the House, however, had a different reaction. First, the Speaker, who lived in an old and poor industrial city where there was a lack of decent homes and services for citizens, had little sympathy with the environmentalists' demand for open space, a cleaner environment and an uncluttered coastline. In his mind, environmentalists were people who lived in suburban towns--not the voters he represented and with whom he grew up.

Second, the newly appointed Speaker, had a limited acquaintance with the Secretary of Environmental Affairs. He reacted to the complaints by cutting the Secretary's office budget, making it clear at the same time that he considered environmental programs to be competing with the more important programs that provided jobs and direct services.

How could Secretary Murphy resolve the Speaker's objections without altering the MEPA law? She formed a task force

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<sup>6</sup>The good relationship between the two was, in large part, due to the excellent working relationship that developed between Secretary Murphy and a lobbyist for a major utility company, who, not incidentally, was a close friend of the Senate President.

made up of public and private representatives that met and could agree to a set of regulation changes. But the task force was a public relations technique. Privately, she worked with key people in the Speaker's office to accept certain nominal changes in the regulations. Once they worked out an agreement, this decision became an accepted fact. Since other business lobbyists had already agreed to the law, the road and building contractors had little choice but to accept the Secretary's privately negotiated modifications.

But the conflict between the Secretary and the Speaker did not end with MEPA. A second event, which took place in 1977, made him equally upset. A year before, the federal government had passed the Coastal Zone Management Act, legislation designed to encourage the planning and conservation of the nation's coastline. Under the law, states were asked to prepare coastal zone plans, which if approved, were given federal assistance to put into effect. Since the federal government did not specify the method by which states should implement their plans, Secretary Murphy decided that Massachusetts, with its 1200 miles of coastline, had sufficient enabling legislation to allow her to simply promulgate a set of rules and regulations. In taking this approach, she need only hold public hearings before issuing the plan and could thereby avoid having to go the less predictable route through the legislature.

Several business representatives, most notably those who earned their living from fishing and other coastal business, praised the rules and regulations drawn up by Dr. Murphy as encouraging development as well as protecting the coastline. But a larger and more vocal segment of the business community, led by the Greater Boston Chamber of Commerce, was upset by the process and outcome of the deliberations.

Once again, the Speaker reacted to businesses' complaints. First, he warned the U.S. Department of Commerce, which had control over the Coastal Zone Management Act, that he would strip the state's environmental office of its powers and budget if the department approved and funded her planning document. He then demanded that Secretary Murphy meet the objections of the business community and change the rules and regulations.

The Secretary again responded by forming a task force of individuals that could "officially" deal with the criticism by developing an acceptable set of regulation changes.

#### Comprising the Task Forces

Since the task force method of resolving disputes between her agency and the business community became the "modus operandi" it is worth examining the process in more detail. Clearly, this method of resolution had the advantage of allowing her to keep the formulation of environmental policy in the executive branch. But what was the result? Several

people interviewed thought that the task forces reduced the Secretary's power to ruling by committee. Others believed that the task forces were brilliant contrivances that appeased business leaders without modifying policies.

Although there were few rules attached to the formulation of task forces, several staff members in the executive office said that Secretary Murphy had an unofficial maximum amount of change (or minimum standard) that she would allow. Anything below that level, (or above the standard), was to be decided by the group that eventually met. Consequently, her most important job was finding the proper mix of people to invite on particular task forces. Obviously, they should be some combination of business, environmental, legislative and administrative leadership. With respect to the business community, whether the business leaders were associated with business that were marginal or growth, a trade association or an individual enterprise was less important than that they should satisfy one or more of the following criteria; the firms represented were the ones that objected to the initial action or policy, had influence at the legislature, had an interest in participating in such decision, or had technical knowledge useful to the group. As it happened, however, many of the businesses that satisfied the criteria were marginal firms concerned about the impact of environmental legislation on the cost of doing business.

The purpose of the task forces was to get a consensus between business, government and environmentalists and other interest groups about the direction of public policy. Group pressure and ethics provided the mechanism which ensured the success of the method. A frequent participant in these deliberations explained the values that made the consensus work.

Loyalty is the most important thing. You never go back on your work. If AIM goes 'off the reservation,' in a compromise, they have to answer back to the whole group so that they would not kill a bill at the end of a compromise.

Because ethics made participating businesses defend a consensus to which they were a party, the selection of business leaders was key to developing a conflict free public policy. And since there were many business points of view, it made sense to include as many of them as possible in the deliberations.

Secretary Murphy also wanted labor represented on the committees. But with the exception of the building trades union, which had an interest in construction regulations, it was difficult to find labor officials willing to participate and they were often underrepresented on task forces.

Without question, a group of articulate environmentalists was needed to balance businesses' needs with the constituents' point of view. As a liberal who viewed a good environment and economy as being closely related, Secretary Murphy considered it in the public's interest to have constituency well represented on the committee. Most often, she selected lobbyists

or officers of environmental associations already active in environmental legislation and policy.

While it was not difficult to find informed environmentalists, there were questions about their motivation. What would prompt them to be willing to participate in an unpublicized venture which could mean the loss of some already won reforms? As it happened, environmental lobbyists were not only willing to participate, but liked the use of the task force as a vehicle for formulating public policy. The task force forum ensured them that they, like the business community, would have a major part in policy deliberations. Further, environmental groups were not anti-business. In fact, some groups like the Audubon Society, with its 26,000 members, had close ties with the business community, depending upon it for corporate membership dues, special donations and even lent personnel. Many Audubon Society members were also corporate officers who were as concerned about the economy as the environment.

But beyond these reasons, inviting environmental advocates who lobbied meant getting people experienced at compromising--people who agreed that quiet, unpublicized negotiations were more effective than confrontations or disagreement. To them, holding strong, unbending positions about an issue and then allowing the debate to become public and publicized through the media hardened positions and often made solutions difficult if not impossible. The unsuccessful

confrontation politics of a returnable bottle bill was evidence to these lobbyists of the wrong type of strategy.<sup>7</sup>

Yet even if confrontations were successful in the short run, lobbying organizations concerned with a number of environmental issues did not want the reputation of being unreasonable on issues and difficult to work with. A lobbyist for a major environmental association, for example, argued that coalition building was complex and alliances frequently shifted among different interest groups. Even members of the business community could be helpful in getting legislation that does not affect them through the legislature. For this reason, she preferred that differences on any one issue be worked over privately, away from the media and legislators. In essence, the task force approach was the perfect vehicle for implementing this strategy.

The final group, elected officials, was the most important. Three types of elected officials were asked to serve on the task force: knowledgeable legislators, committee chairmen

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<sup>7</sup>A returnable bottle bill has been unsuccessfully introduced in over five legislature sessions by environmental activists. Unions have joined with the trade association and bottle bill company lobbyists to successfully stop the bill. Although the bill has had the support (and coverage) of the media and most liberal organizations, they have not been able to translate these endorsements into legislative support. In addition, the media coverage given the issue has polarized positions and, as has been alleged by some, made it difficult for a consensus to be reached between the sides.

(if a bill was the likely result) and legislative leaders (or their designees). Only committee chairmen sometimes balked at participating in the negotiations which might threaten the separation of powers between the branches of government by not allowing the legislators their own separate deliberative process. But their presence was unimportant if aides to the Senate President and Speaker of the House served on the task force. In addition to being helpful in designing rules and regulations which would not anger elected officials, the leaderships' participation often resulted in their sponsorship of legislation that came out of the task force. And sponsorship by the two top legislative leaders guaranteed a bill's success.

#### The Agencies Use of Task Forces

Many departments within the Executive Office of Environmental Affairs organized task forces to promulgate rules and regulations affecting business. This time, business participation depended upon interest. For instance, AIM's lobbyists, mirroring the concerns of its membership, were primarily concerned with water and air pollution regulations. The Homebuilders Association were involved in the task forces dealing with land development. Utility companies had an interest in pollution, hazardous waste and development issues. The fishing and oil companies participated in coastal water regulations. Finally, the Greater Boston Chamber of Commerce

took part in task forces dealing with growth and transportation policies.

Having a business representative on a particular task force did not mean that the task force would succeed. Some representatives were more helpful and active than others. In addition, representatives were often the most active and helpful if given a leading role on a particular task force. Such was the case with the part of DEQE which enforced environmental quality standards. A regional engineer at the department worked closely with AIM's representatives, both on collecting data to use in regulating emissions and in assisting the department to develop a consensus in task force meetings. In comparison with individual businesses, which were often reluctant to comply with the expensive regulation, he praised AIM's commitment to a decent environment and genuinely doubted he could do his job without its assistance:

AIM is very cooperative . . . they will step in at the appropriate time and will sit down with us and work out a compromise. They represent a generalized viewpoint so that they can be very helpful.

But when there was little to be gained from cooperative business lobbyists, especially from AIM, could be obstructionists. DEQE also sponsored a series of task forces on how to meet the federal provisions of the Federal Clean Air Act of 1977. Since the federal standard were set by law, the

object of the task forces was to determine a schedule of implementation which would least disrupt the private sector. For the most part, the decisions were a matter of timing and not policy. At these sessions, AIM's lobbyist was seen as ineffective and too demanding. A DEQE spokesperson described his feelings about AIM's lobbyist role on the task forces:

AIM will exaggerate the effects. It is the same old rhetoric every time. He comes in five minutes before the end of the meeting and disrupts it by giving his oratory. Then he is always calling and setting up meetings for committees to talk to the director.

Still, the task force system succeeded in appeasing the business community. By the end of Secretary Murphy's reign, she was praised by the politicians as being politically astute, by most members of the business community as understanding their pressures and needs and by environmental lobbyists as an effective environmentalist. No one, including the media, objected to government by task force or the lack of a public process or debate.

### III. Labor Legislation

Government by consensus was not unique to the Executive Office of Environmental Affairs. Labor policy has been decided by the method of consensus for years. But in this

situation, the process was not a task force of interested parties but the negotiations of two dominant and opposing representatives--for labor, the State Labor Council of AFL-CIO, and for industry, AIM.

The method was a matter of custom rather than calculated decision. Most of the significant labor legislation in the Commonwealth passed in the early part of the twentieth century. It was the first state in the union to enact a ten-hour work day for children and while weak, stipulating only that an adequate minimum wage be given to all workers, the first to enact a minimum wage law. The state set a precedent for other states in the country by regulating safety in the work place through the establishment of standards and inspections of stationary boilers. It was a pioneer in passing protective labor laws for women, many of which were later extended for men.

The conflict over the propriety and wisdom of labor protection laws came at a time when there was a limited administrative bureaucracy and a strong legislature. For a period, the conflict was public--the Democrats taking the side of labor and the Republicans representing the businessman. But as the Democrats increased their majority in both houses and developed closer alliances with the business community, a forum for deciding labor policy developed in the legislature which emphasized private negotiation between the two representatives and deemphasized conflict and public confrontation.

Negotiating a Labor Policy

Even though eighty-five percent of the two million workers in the state were not unionized in 1979--most of whom worked in the service sector and high-technology firms--the State Labor Council has been the dominant labor advocate in the legislature. Although there were other unions, most notably the Massachusetts Teacher Association and the United Auto Workers--the State Council represented over ninety percent of organized labor in the state and could easily claim the title of being the most important labor organization in the state. The counter part for the State Labor Council in the legislature was AIM, the manufacturers association. in 1979, there were 2600 members in AIM employing 487,000 members. The average AIM member employed 187 workers. Like the AFL-CIO, it represented the largest organized business group operating in the Commonwealth.

During its early years, AIM led the opposition to a number of labor laws, including the minimum wage protection, the health and safety of women and children and even legislation increasing the compulsory school attendance age. But after the early part of the twentieth century, the federal government had taken over many of the powers to regulate the work place and the states were no longer passing pathbreaking labor laws. With few exceptions, both labor and industry were focussing their legislative attention on two important labor

programs already in law--workmen's compensation and unemployment compensation benefits. Both were administered by the state government, which set the level of benefits, but paid for by private employers.

The two organizations had completely different approaches to lobbying. AIM's staff, including its lawyers-lobbyists and researchers, were bright, well-read individuals who acquire an expertise in the complicated laws dealing with unemployment compensation and workmen's compensation equaling their personal relationships with legislators. In comparison, the lobbyists from the State Labor Council were uninformed about technical issues, suspicious of politicians, and more at ease organizing picket lines than in discussing the implications of a legislative proposal. To make matters worse, the State Labor Council had no back-up research staff and had to send bills to the AFL-CIO Washington national office for review before they would talk about them.

Even with such vastly different lobbying capabilities, what was important to politicians, who had to contend with re-election every two years, was that the two associations, which represented most of labor and industry in the Commonwealth, were 'friends' who could be counted on to develop a politically acceptable compromise that would not threaten their re-elections. As a consequence, it became the custom in the Commerce and Labor Committee which considered

labor legislation, to have the two sides negotiate the set or package of labor benefits that the legislature could pass each year. The package would be one that pleased union workers, who were constituents, without hurting business.

The political process rarely varied. Initially, the State Labor Council and other trade associations would submit a number of bills dealing with labor benefits and protections. While some would provide for a new program, like a cash sickness plan, or change a law, such as allowing unemployment compensation benefits to be paid striking workers, most would deal with the two major labor programs, unemployment compensation and workmen's compensation.

Officially, at the public hearings on labor legislation conducted by the Commerce and Labor Committee, AIM's representatives claimed that the enactment of any new labor law or increased benefit would add to the cost of doing business in the state and make it more difficult for industry to operate. But unofficially, it would decide upon a counter-proposal and strategy. Often, this was not an easy task. At one time, one of AIM's most important members, General Electric, had its own lobbyist who specialized in unemployment compensation and who often disagreed with AIM's position. The two groups often had to work out their differences in private. In addition, AIM's lobbyists made decisions about how to change the laws which often favored one group over another.

A major question was how to finance any increases in benefits. For example, in 1962, during a recessionary period, the unemployment compensation fund was depleted and needed more money from contributing employers. But there were several ways to improve the solvency of the fund. Those who were low wage employers wanted it done by raising the maximum taxable wage base. But firms that paid higher wages preferred that the tax rate be increased. A former member of the Department of Employment Security staff recalled the dilemma, which resulted in both a new contribution rate schedule and a higher wage base:

Accommodations had to be made between those who wanted to raise the tax rate and those who wanted to raise the taxable wage base. The low wage employer, like department stores, wanted to raise the taxable wage base . . . other employers wanted to raise the rate, so that there was a conflict. Also AIM had a struggle between the apparel companies which was a small industry and GE which was a big industry. In the end, they went to a new contribution rate schedule and a higher wage base.

Once AIM had a position on how to resolve differences within their membership, they would begin to negotiate the "benefits" package with union lobbyists. Although frequently meeting in a legislative room made available to them by the Commerce and Labor Committee chairman, they preferred to work without legislative staff or committee members present. For instance, a staff person new to the committee asked to join

the negotiations as a committee observer. Although the chairman of the committee agreed, the aide remembered the negotiators, especially from AIM, as being unhappy with her presence:

The first time I worked with them was in a bargaining session over unemployment compensation. I remember being impressed with AIM's lobbyists knowledge of the subject which was very technical. I asked several questions which were never answered and generally was treated as an intruder into a private process.

When the two parties could not immediately agree, negotiations between the two parties extended over the legislative session as labor waited for the Washington office to evaluate all proposals during each step of the negotiation. Even then, not all members of the business or labor committees were pleased with the results. In particular, members of the High Technology Council and a major Boston bank have continually complained about the overly generous unemployment compensation benefits paid workers in the state. But they have deferred to their code of ethics--which allowed AIM, the primary agent, the right to negotiate the benefits and did not allow them to publicly criticize AIM, a member of the business community, for their part in negotiating the level of benefits.

But it probably would do little good to complain. Unlike Secretary Murphy, Labor and Commerce Committee chairmen preferred a process in which the State Labor Council and AIM represented both sides. One committee staff member

explained he supported the system because it saved the committee and him time:

They [AFL-CIO and AIM] agree on a workmen's compensation bill and they work it out and they say that everyone agrees and a month later a major corporation like General Electric will call and say what did you do that for. I do not have the time to seek out other groups.

### Conclusion

The past chapter has described the process of resolving conflict in a 'little' state. The conflicts arise from three contradictions inherent in a market economy:

- (a) Environmental Policy--the right to a clean environment versus the right of business to operate freely in the marketplace;
- (b) Labor Policy--the right of labor to have a decent standard of living versus the right of business to maximize its profits;
- (c) Tax Policy--the right of individuals and businesses to keep what they have received in wages and profits versus the obligation of society to protect and enhance the quality of life of its citizenry.

In two cases, environmental and labor policy, the state has developed several successful forms of resolving conflict. But consensus is a fragile condition, which depends as much on the ability of the business community to work together

as it does on the willingness of the electorate to work with the business community. Thus, it is important to view business tax policy as an illustration of how conflict can re-emerge. In this situation, the public's concern about its tax burden and the shifting power struggle between associations representing marginal and growth firms set the stage for the overturning of the traditional process by which business tax policy is formed. In doing so, however, tax policy became politicized, out of the control of politicians who want to minimize conflict. Controversy and politicization of such an issue can threaten the political futures of a number of legislators.

## CHAPTER V

### A POLICY OF CONCESSION

The preceding chapter examined the process by which conflict, arising out of the needs of varying interest groups in a 'little' state, is resolved. As described, the method of resolution took many forms and involved different constituent and business groups.

There were also contradictory demands that were present in the formulation of business promotion policy. But the form of the conflict was more complicated. Unlike labor and environmental reforms, policies that was supported by specific interest groups, the electorate as a whole benefited from the additional jobs and state revenues that were a result of an aggressive and successful business promotion program. Yet, the electorate rarely become involved in business promotion issues. At the same time, opponents of a effective business promotion program was a narrow interest group--existing businesses already located in the 'little' state. For them, a policy that resulted in the attraction of out-of-state businesses and new start-ups also increased the competition for labor and other inputs into the production process. Input prices rise, bringing a corresponding decrease in the comparative advantage of producing a good in the now input scarce region.<sup>1</sup>

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<sup>1</sup>For some firms, additional industry is welcomed. In these situations, agglomeration economics are present--the recruitment of new business reduces the cost of production or distribution for already existing businesses.

To some extent, state officials formed the most clearly defined interest group that benefited from a business promotion program; an expanding economy provided jobs and revenues that was enjoyed by voters. Yet paradoxically, government's main objective was to minimize conflict. Was it possible to minimize the conflict between the general populace, which pays no attention to the policy, and existing businesses and, at the same time, advocate for the policy that creates the conflict? In a sense, the formulation of business promotion is less an examination of the resolution of conflict than a study of the types of concessions state officials make to special business interests.

#### The Motivation for Promotion

It was January 1945. The war was almost over. In Massachusetts, the voters had just elected Maurice Tobin, the young Democratic mayor of Boston to be their new governor but had, once again, returned a majority of Republicans to both houses in the legislature.

During the war, problems of the economy were little noticed as the government controlled the consumption of goods and every able person was either serving in the armed forces or gainfully employed at home. But the war's end meant that many defense-related industries were no longer necessary. In Massachusetts, fifteen percent of the state's work force lost their jobs after the war. Local newspaper accounts were

pessimistic, claiming that the state's economic future was uncertain. Although sales of consumer goods were booming in the country, writers assumed that few of those new sales would originate from Massachusetts. Instead, newly formed companies would locate in other states, where there was a better skilled labor force, more plentiful natural resources, a lower cost of business and an interest in technological innovation.

The new governor was obviously concerned. To revitalize the economy and reduce unemployment, Tobin proposed rebuilding the state's transportation network, including its highways, airport and seaport. In addition, he urged the establishment of a state agency to assist in the expansion and relocation of industry in the state. Governor Tobin described the purposes of the new department in his inaugural address:

In brief, this department would concern itself with the maintenance, insofar as possible, of present industry with the State, at a high level of employment and prosperity; the security of new industries and other enterprises; proper post-war promotion of all resources.<sup>2</sup>

There was precedent for establishing the department. The Commonwealth already had a state planning board that prepared limited physical and economic plans, and an industrial commission to promote the state to out-of-state businesses.

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<sup>2</sup>Commonwealth of Massachusetts, Address of His Excellency Maurice J. Tobin to the Two Branches of the Legislature of Massachusetts (Boston, 1945) Senate no. 1.

But to the new governor, the fact that several southern states had established development agencies made both organizations outdated and the implementation of his own proposal urgent. Unless Massachusetts responded with its own single, comprehensive agency, he feared the state's competitive position would worsen.

To win acceptance of the department with the Republican majority in the legislature, Tobin formed a special commission, headed by Joseph Kennedy, a well-known local politician, who had recently served as the U. S. Ambassador to Great Britain. The special commission reported back within the year, enthusiastically endorsing the new department and recommending that it receive a first-year budget of one million dollars--an enormous outlay at that time.<sup>3</sup>

To Tobin's dismay, the commission's report failed to influence all the members of the state's business community. Associations representing supporting sector establishments, such as the retail trade association, backed the proposal which promised to bring in new industry and thus trade into the state. But manufacturers were less enthusiastic. While some thought the department a good idea, others were not sure that the addition of new industry would help them and were

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<sup>3</sup>Commonwealth of Massachusetts, Report of the Special Commission Relative to Establishment of a State Department of Commerce (Boston, 1945) House 300.

less supportive, calling its implementation a waste of money.

In turn, Republican party members were persuaded by those in the business community who opposed the idea. Dismissing its merits, the Republicans in the legislature claimed that the department would be nothing more than a source of patronage for the Democratic party.

For seven years, the Republican majority in the legislature blocked efforts to establish a department of commerce. But, in 1953, a newly elected Republican governor, Christian Herter, broke with party tradition and endorsed the establishment of the department. Using the influence of his office, he successfully convinced his Republican colleagues in the legislature to abolish the state planning board and the Massachusetts Development and Industrial Commission and in their place, pass the bill authorizing a Department of Commerce.

#### Serving the Establishment

Officially, the department has always had two purposes--to expand existing industry in the state and to attract industries from other states. Since the agency has never had regulatory or police powers, it has had to depend upon its technical assistance skills to fulfill its dual objectives. For example, in the department's first year of operation, it had three divisions--research, planning and development, and promotion. The agency's actual duties ranged from working

with local development groups to providing site and tax information to prospective business relocatees.

The agency was renamed the Department of Commerce and Development in 1964 and temporarily given the additional responsibilities of urban renewal, housing and tourist development. But by 1969, the housing and urban renewal functions had been transferred to another agency and the department returned to the more narrow mission of expanding the state's economic base.

The department has never been very effective at its mission. In turn, there have been a number of explanations for the department's failure. The most obvious was that the mission was impossible; development is a natural process and can only be marginally assisted by the public sector. But even if this were true, the relationship between the business community and the department increased the department's ineffectiveness.

To a great degree, the failure developed because the department found it easier to serve the tangible business community rather than some broad objective like the needs of the economy. One part of the business community was the set of firms already operating in the Commonwealth; the department staff devoted enormous attention to this group of constituents. While the Secretary of Economic Affairs and the Commissioner of the department had to serve other 'masters' as

well, especially government, defending unpopular actions of governor or his administration to the private sector, the Secretary and Commissioner accepted and even supported the department staff's single-mindedness.

For the staff, the crucial question became how best to serve the existing business community. Since they wanted to expand the economy, the staff designed programs like state mortgage guarantees and technical site assistance, which helped expanding or relocating firms to move into new headquarters. A number of growth firms have taken advantage of these services, especially the mortgage guarantee which reduced interest rates on mortgages. But many growth firms had their own financial sources and were impatient with the slow process of approval required under the mortgage guarantee program. In addition, the vast majority of firms already located in Massachusetts were either too small to qualify or not planning to expand or relocate in the foreseeable future.

What did the vast majority of existing businesses want government to do? Most officials of firms cared little about government policy and left legislative matters to their trade associations, if they had one. In fact, unless required to by some law, they rarely became involved in governmental matters. But it was during these times that business became aware of the value of having an advocate in government. They learned that they could call the Department of Commerce and

Development and complain about the decisions of another part of state government that limited their operations and required them to do something against their will. Often referred by trade associations, the firms asked the department to intervene with the 'offending' agency on behalf of the firm.

Because the department staff wanted to be helpful, they took on the role of mediator between the public agencies and firms seeking some type of relief, including arranging meetings with disgruntled businessmen before tax department officials, calling upon the Secretary of Environmental Affairs to reconsider a decision made by one of her agencies and even requesting town or city officials to cooperate with businesses about getting a stop light or expediting the red-tape needed to provide a plant expansion. Although they had no power, department officials tried to persuade other government agencies of the economic importance of cooperating with the business community. They were often successful.

While the department accepted all requests for help, it designed its programs to serve large-scale manufacturing firms. For example, the department contacted every firm in the state to tell them about its service, but limited the contact to manufacturing firms which employed more than 20 employees and service establishments with over 50 employees. In addition, the technical assistance it offered businesses beyond its ombudsman role--obtaining mortgage guarantees for

construction and rehabilitation of commercial and industrial buildings, providing sites for relocation and providing information on tax credits, incentives and employment training programs--were most helpful to large firms. Small businesses needed assistance in marketing, pricing and short-term financing, services not available in the department or elsewhere in the state government.

The decision to help a small segment of the private sector was not uniformly welcomed by the department staff. They wanted to be advocates to all business in the state. Although understanding the reasons for limiting their efforts, a department staff member expressed a common opinion in the department about the exclusionary policy:

Yes, I think small businesses have been neglected. It is political reality because it gets more press to get numbers of people employed. But the bread and butter of the state is small business.

In fact, the decision to limit its focus was made, not by the Commissioner, but by the Secretary of Economic Affairs. He had two reasons. As the staff member explained, one reason was political--the governor and his administration received more media publicity and credit for solving the problems of major businesses in the state. In addition, the Secretary reasoned that efficient use of staff time demanded that they help only firms that could retain significant numbers of workers. Although the Secretary could not force the depart-

ment to comply, his power to decide its budget made the decision pro-forma.

### Eliminating Competition

Assisting domestic companies was supposed to be only a part of the department's responsibilities. It was also expected to attract firms from other states and countries. But, in actuality, there was little outside solicitation.

Governor Dukakis was the one who de-emphasized the importance of out-of-state recruiting. Basing his attitude on research done by his staff and others, he decided that the possibility of attracting new firms or branch plants to the state from other states was minimal. But what about foreign companies? His administration supported the idea of bringing in firms from overseas. In addition, despite what domestic firms were saying about the state's business climate, foreign firms producing technologically advanced products could advantageously locate in Massachusetts. According to a department official responsible for recruiting foreign businesses, Massachusetts had a comparative advantage:

Foreign companies can build companies in Massachusetts for one-third to one-half the cost of that in Europe. For those companies with high value added, Massachusetts is natural. Unionization is less of a concern for foreign companies than domestic companies. For a foreign company that is either used to communists or trade union arrangements that are unbelievable or. . . where they cannot

shut down the company, this looks like an absolutely beautiful environment. We have a nice mix of union/nonunion companies that exist side by side and the unionizing pressure is nothing like New Jersey, Tennessee, or North Carolina where the unions are very aggressive.

But individual businesses as well as trade associations, especially the High Technology Council, were privately opposed to the campaign to recruit foreign firms. Many of the firms that would be recruited were likely to be high technology products.

Massachusetts-based high technology firms paid their workers less than the national average for high technology jobs.<sup>4</sup> They obviously did not want firms relocating to Massachusetts, competing for labor, and as a result, bidding up workers' wages. Instead, officials from the high technology sector told Governor Dukakis and his staff that public resources would be better spent on providing additional training program in computer science and other pertinent skills.

#### Business Involvement in the Department

While department officials generally disagreed with this attitude, believing in the value of competition and economic

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<sup>4</sup>For a general discussion of wages see Lynn E. Browne, "How Different Are Regional Wages," New England Economic Review, Federal Reserve Bank of Boston, January-February (Boston, 1978), pp. 33-43. See also Michael Segal, "High Tech," The Phoenix, pp. 46 and 48.

growth, they did not want to antagonize the growth sector of the economy. Thus, little attention was given to the firm recruitment program.

Instead, department staff hoped to elicit the support of existing businesses to revitalize and improve the department's operation. But their requests for firm involvement were largely ignored. Even trade associations saw little value in getting involved in the affairs of the department.

As a result, the several attempts by the department to organize a business advisory board were unsuccessful. For example, the department started the Foreign Business Council, a group of fifty prominent local business leaders active in international trade, to help it make contact with foreign companies that might be interested in locating in the state. But the council made few referrals and the names they did provide did not respond to inquiries from the department.

Businesses' lack of involvement extended to legislative matters. Officials of the Dukakis administration filed a number of economic bills designed to be serious gestures to show business their intention to improve the business climate. Most of the bills had more than symbolic objectives and included proposals that would provide venture capital to community-based enterprises and innovative high technology companies, permit the issuance of industrial revenue bonds to rehabilitate and construct commercial and industrial buildings, and eliminate unemployment compensation benefits for those who voluntarily quit their jobs.

Business leaders and trade association lobbyists, especially from AIM, were very interested in and actively lobbied for the bill, which eventually became a law, limiting unemployment compensation benefits and cutting firm costs. But the bill was designed to help existing businesses in the state. Other bills, which more directly addressed the issue of starting up new companies and expanding the economic base, were of little concern to the same group of businesspeople.<sup>5</sup>

#### Effectiveness of Department

The business community was not the only group that had little interest in the Department of Commerce and Development. Legislators had a similar attitude. In 1975, the period of the recession, when the economy was a major item in the newspaper and unemployment rates were growing in the state, many legislators sponsored economic development legislation. Attendance at committee hearings that took testimony on the bills was high, and legislators were very involved in the drafting sessions on the proposals. But in 1978 and 1979, the economy was on the rebound and legislative interest in the economy waned. Except for the chairpersons, key staff members

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<sup>5</sup>The only exception to this rule was the active role of a particular AIM lobbyist in getting a bill providing public venture funds to innovative businesses through the legislature. But he was acting more as a lobbyist for the sponsoring agency of the bill, which temporarily hired him as legal counsel, than as a representative for AIM.

of the committee and a few administrative spokespersons, there was little public participation in economic legislation, and almost unlimited freedom for the committee to revise and recommend business promotion proposals. For example, during the 1978-79 legislative session, the two branches of the legislature passed business development legislation approved by Commerce and Labor Committee without a single roll call or debate.

Legislators voted for economic development proposals for their "symbol" rather than their substance. In the same way, politicians believed the Department of Commerce and Development's function was to show business that government cared enough about the business climate to fund an agency to watch over the business. Few believed that the department was effective in its mission of expanding the economic base. Because of this attitude, the caliber of the staff was not important to them. Instead of trying to attract the most professional staff to upgrade and improve the department's performance, politicians saw the department as a place where friends of politicians could find employment. It became, as the Republicans feared, a "dumping ground" for Democratic patronage.

Recent governors have made an effort to improve the caliber of appointments. Although they have partly succeeded, an attitude of defeat and scepticism both in and out of the

department still prevailed. While Governor Dukakis was publicly taking credit for the improvement in the state's economy in 1978, a few subordinates were saying that the public sector had little to do with the economy's upturn. But even those in the Department of Commerce and Development who thought that the state played a part in the economic expansion believed that the impetus came from new legislation rather than actions of their department. As one explained :

The agency is not very effective and cannot really change the economy. [The] economy [is] better partly because of legislative changes which have done a lot to change the climate some degree of improvement in the (business) atmosphere. We have had some success stories out there but of the 331 companies that expanded . . . (in 1978) . . . relatively few of them were critically influenced by this department's efforts.

### Conclusion

Implicit in this chapter is an assumption that business promotion programs can, under specific conditions, be effectively designed to expand a 'little' state's economic base. In doing so, the chapter has shown that the inability of the Department of Commerce and Development to separate itself from the existing business community as a major reason for its poor performance.

The chapter really has two conclusions. First is the importance of the concept of comparative advantage in the formulation of public policy in a 'little' state. Existing firms,

especially high technology companies, did not want the department to recruit out-of-state firms that could increase competition for inputs and reduce their comparative advantage. In addition, the chapter highlights the inability of a 'little' state to even advance programs that expand the economy, as long as these programs conflict with the needs of the existing business community. Although everyone agreed the performance of the development agency could have been improved, no one interviewed felt comfortable about implementing programs that alienated a segment of the local business community.

## CHAPTER VI

### A THEORETICAL PERSPECTIVE

#### Introduction

Building upon the empirical research in the first five chapters, Chapter Six provides a framework for understanding the formation of economic policy in the 'little' state. It describes the constraints and contradictions that define the process of governing in a subnational economy.

The initial framework evolves from the structuralist tradition. Unlike pluralists, who assume that public policy is the outcome of competition between interest groups and instrumentalists, who explain the actions of the public sector through an analysis of the needs of the business community, structuralists explain policy decisions within the constraints of a capitalist community.

The central themes of the three frameworks are quite different. Pluralists and instrumentalists are most interested in the relationship between public officials and interest groups. The question to be answered is whether one group (instrumentalists) or several groups (pluralists) influence public policy. But structuralists assume that the power relationship between elected officials and interest groups is dependent upon the structure of the economy. In a free market system, the objective of government is to ensure the continuation of policies that maintain economic

prosperity. While non-business interest groups have power in the process, that power is defined and limited by economic constraints.

### Examining the Hypothesis

The first chapter set forth three hypotheses about policy formation in a 'little' state. Their appropriateness will be analyzed in the context of the evidence presented about policy formation in the Commonwealth of Massachusetts.

#### (1) The relative autonomy of elected officials.

The preceding chapters illustrate the importance of the electorate in the decisionmaking process. When deciding upon a policy, elected officials first consider the impact of the decision on voters--people who elect them to office. The business community has influence only because of voter needs; the state can only guarantee jobs and an adequate level of services to the electorate if there is private enterprise.

Thus, elected officials must have prosperity to keep the electorate content. As described in Chapter Two, elected officials assume the prosperity is a function of the business climate in the little state; the more pro-business policies the greater the likelihood that business will expand or start-up in a 'little' state.

Politicians are also aware that business and the electorate have conflicting demands. The electorate wants more protections while business wants fewer regulations. Conflict threatens poli-

ticians and they see their main task as minimizing the differences that do exist.

To do this requires independence from special interests, including the business community. But the independence is relative rather than absolute. Even if decisions would improve the long-run prospects of the economy, legislators are unwilling to implement programs opposed by members of the business community. (An example of this situation is their unwillingness to have an active business recruitment policy.) Instead, legislators see their role as minimizing conflict, wherever it arises, and developing a consensus on narrow issues among different interest groups.

- (2) Businesses' demands for public programs are a function of their stage of development.

The concept of comparative advantage plays an integral part in the formulation of public policy in the 'little' state.<sup>1</sup>

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<sup>1</sup>Like many economic propositions, the concept of comparative advantage is limited by its need to abstract from the more complex and realistic process of change. Four factors can be cited which reduce the usefulness of the concept to explain the composition of firms in a 'little' state.

(a) The National Economy. A market depends upon the free flow of goods and services across and within state borders. The system is in part, additive and in part, reactive. In particular, while the national economy is the sum total of the economies of all states, each state's economy is also dependent upon and a function of the level of prosperity of the nation-state. This is important because national economic conditions can alter the importance of the state's comparative advantage. For example, firms will expand in a state that has lost its comparative advantage if an increase in the demand for their products, a result of the general upswing in the economy, offsets the increasing costs of production.

It rests on the validity of two separate phenomena that have not been tested by the model--the presence of change in a market economy and the movement of capital and labor between regions.

--Change in the Marketplace:

In competing among themselves for markets, firms go through three stages of development. The first stage, innovation, is a period in which an entrepreneur has a potentially profitable technique not yet converted into the operation of an actual enterprise. Those that begin operating go through the second

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(Footnote 1 continued)

(b) A Lack of Equilibrium. Traditional economists assume that the process of comparative advantage is self-equilibrating. Their explanation is straightforward: firms locate in a region that has advantages over other regions. This causes the demand (and cost) for the region's resources to increase and its comparative advantage to decrease. At the same time, the region's losing firms would increase their supply of idle resources, resulting in a reduction in input costs and an increase in comparative advantage. But this analysis is based on the immobility of resources. What if resources were as mobile as firms? Then the result of an increased demand for resources in one region would increase the supply rather than the price. Eventually one region would become resource rich and the other resource poor. Regional disparities would increase rather than diminish and there would be no equilibrium.

(c) The Imperfect Firm. The theory of the firm is in itself subject to serious criticism. Firms are not just profit maximizers. Some are cost minimizers, risk averters or simply guided by non-economic factors. For instance, even if the situation clearly indicates that a move would be economically beneficial, some firms remain where they are because their owners consider non-economic factors, such as nearness to family or the quality of the environment, to be of the highest priority.

(d) Public Intervention. Perhaps the key factor in the process of comparative advantage is public intervention. Government subsidies and programs affect a state's comparative advantage. For instance, improving roads, spending money on public education and raising money interest rates have enormous impacts on a state's economy. Clearly, firms can gain significant rewards and benefits if such public programs alter a state's comparative advantage in a manner that most benefits them.

stage, the growth stage, when they are expanding their output, investment and employment. Eventually, innovative firms with even more profitable techniques are started, creating conditions in which growth firms become less efficient than their new competitors and eventually die. This is the last stage, the stage of decline.

--Movement of Capital and Labor:

The process of firm growth and decline has geographical characteristics. Every location has its own unique mix of assets and liabilities. Assets differ. Some assets are natural like raw materials. Others, like roads on the politico-economic environment, are produced through the actions of the public sector. Still others, like hydroelectric power, are natural resources converted to productive use.

Geographic characteristics are important to our structuralist framework because of the ability of capital and labor to move across small regions and state. In a competitive marketplace, ease of movement gives firms an incentive to locate in areas possessing a mix of assets and liabilities which provide them with a comparative advantage over their competitors. Because firms making comparable products have similar needs, they are likely to cluster in the same location. As a result, we should see a pattern to the economic composition of 'little' states or regions.

Obviously, innovative firms (or more correctly, entrepreneurs with innovative techniques) and growth forms will often find it in

their interest to locate in areas with a comparative advantage. But, as we have explained, growth firms eventually go through the final stage of development and become technically obsolescent and inefficient. While many of them die, some are able to exist as marginal firms with a limited market and barely adequate profits. Since there is often no advantage to relocating, they cluster in the same area in which they grew.

The relationship between stages of development and geographical location provides an explanation of the different demands made on the 'little' state by firms and their trade associations. For example, the trade association in Massachusetts representing older manufacturing firms advocated a business tax policy that reduces the tax burden or the cost of doing business and offsets existing inefficiencies. In contrast, the trade association representing high technology growth firms preferred a business tax policy that reduced personal taxes on the assumption that lower personal taxes would induce skilled labor to move to the Commonwealth. Further, high technology firms have lobbied against a state firm recruitment policy because a successful program would increase the competition for labor.

- (3) Economic policy is the outcome of a consensus between different interest groups.

Elected officials would like to please the electorate and implement pro-business policies that improve the business climate

but often demands conflict: not only do voters and businesses want different policies but there is disagreement within each of these communities.

In response, elected officials have institutionalized methods to minimize conflict. One strategy is to limit conflict to narrow issues that are of concern to a small segment of society. Elected officials then use task forces and meetings with representative groups as forums for developing consensus over particular issues. For instance, legislators have permitted two long-term lobbying associations, one representing labor and one representing business, sole power to formulate labor policy. In comparison, environmental policy-making was done by task forces controlled by the Executive Office of Environmental Affairs. In this situation, the Secretary and her staff invited all interested parties, including marginal and growth firms and their associations, to participate on the representative committees.

'Little' states govern passively--by reaction rather than action. The amount of interest group control of a particular policy depends upon the issues and officials involved. Because of officials' desire to maintain a healthy economy to serve constituents, satisfying the concerns of various segments of the business community is ever present in the formulation of public policy.<sup>2</sup>

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<sup>2</sup>The process of concensus in economic policy serves two additional purposes. The process helps to resolve conflict between members of the business community so that they can be unified around an economic policy that best advances their common interests. The process also increases the participation of interest groups in economic policy so that they have a larger "stake" in the free market system.

Even when the choice was satisfying the desire of the existing business community to limit competition or attracting new enterprise and advancing the long-run interests of the economy, as in the formulation of business promotion policy in Massachusetts, officials preferred to minimize conflicts. In fact, there is no evidence that state officials willingly implement long-run reforms that contradict the needs of existing interest groups.

#### Inferring a Dynamic Component to the Model

Minimizing conflict is, even under the best of conditions, a difficult process. It is made more complicated when one considers the relationship between interest group demands and economic cycles. Unfortunately, the period of the research, 1975-80, is too limited to do anything but speculate upon the dynamics of policy formulation. During the period of research, the Commonwealth of Massachusetts was on an upturn, moving out of a serious recession marked by high unemployment and limited state budgets and into a period of expansion.

There are several aspects of a dynamic model of policy formulation in a 'little' state. First, conflict between businesses is minimized in a dynamic model. In particular, the demands of growth and marginal firms are a function of the economic cycles.

Marginal firms have the greatest need for public subsidies to counteract limited profit rates when there is a recession and consumer spending is down. Thus, newspaper accounts and interviews with public officials provide evidence that AIM, the trade association for marginal industries, was the most active and influen-

tial trade association between 1975 to 1977, during the end of the recession. Towards 1978, when the economy started booming, the association representing the high technology sector started to exert more influence in public affairs. This is because periods of expansion are accompanied by increases in private spending and investment. Buoyed by the added demand, growth firms have a greater need for scarce resources. In periods of expansion, then, growth firms have additional needs for public subsidies and marginal firms, helped by additional consumer spending, have fewer needs. Thus, in the latter part of the 1970's, most of the legislature efforts at formulating an economic policy were directed toward programs to reduce personal income taxes and increase training programs for people entering the high technology industry. In periods of recession, the opposite happens: growth firms reduce their demands and marginal firms increase their demands for public service. Not surprisingly, the early seventies in Massachusetts was a period when tax incentives received their greatest attention at the state legislature.

While business conflict is minimized by business cycles, politicians in a 'little' state do not fare as well when dealing with conflicts between business and the electorate. This is because the needs of marginal firms and the electorate--two types of constituents--coincide in time. During periods of economic expansion, growth firms have increased demands and constituents--both marginal businesses and the electorate--have fewer. Public officials are usually able to satisfy all interest groups in a

period of a growing state budget. In contrast, during recessions, state budgets are declining. Although growth firms have fewer public sector demands, marginal firms need additional subsidies to offset reductions in sales. At the same time, the electorate needs more welfare, unemployment and social service programs to ease the effect of rising unemployment. But with limited resources, there is less to go around and consensus among interest groups, especially marginal firms and the electorate, is more difficult to achieve. Threatened with political defeat in a time of rising constituent dissatisfaction, politicians obviously find it in their interest to maintain the condition of prosperity.

There is one final dynamic aspect of the model. The very success of this policy formulation in a 'little' state can lead to future difficulties. The explanation for this contradiction lies in the concept of comparative advantage. One of the outcomes of the process of minimizing conflict is the continued existence of marginal firms. Inputs that would normally be available for growth firms are employed by marginal firms. There may not be a problem during recessions, when growth firms limit their production. But with economic expansion, marginal firms' employment of labor, capital and other inputs make it more difficult for growth firms to acquire similar resources at a reasonable cost. To compensate, growth firms will either pressure the public sector to implement policies that increase the supply of needed resources or they will grow elsewhere. In either case, the result distorts the allocation of resources in the market.

## Conclusion

The original purpose of this research was to test Fred Block's theory of business-government relations. The structuralist framework presented here is different from Block's theory in several important ways. For instance, it eliminates his assumption of the monolithic business community. The framework also contradicts Block's thesis that government can go beyond the interest of the business community to advance the interest of the economy as a whole. While there may be sporadic examples of this phenomenon, the more usual behavior of public officials is to balance the demands of different interest groups in the economy. In doing so, public officials are more interested in minimizing conflict than in developing reforms that might induce economic prosperity.

This is an important point. Are Block and other structuralists wrong to assume that policymakers can make judgments independent of existing demands? Or is there a better explanation that assumes different structuralist frameworks for different levels of government? In particular, Block's theory may be appropriate for the nation-state but inappropriate for the 'little' state.

Why would this be so? This study has made a distinction between the constituent community and the electorate. The electorate are voters who decide whether politicians stay in office. The constituent community includes both the electorate and the declining sector of the business community -- a sector which assists elected officials to perform their jobs and get re-elected. The fact that part of the business community is a

member of an elected official's valued constituency makes it impossible for him or her to go against the interest of at least a part of the business community to implement economic reform. But there may be other reasons. One possibility is that the intensity of business involvement may not be the same at the two levels of government. Existing businesses may find it easier to control a small state legislature with a limited staff than a larger U.S. Congress and may, in fact, have more power to influence policy at the lower level. It might also be that government officials have different views about the effects of their decisions. For example, state officials are obviously aware that capital moves more easily across state borders.<sup>3</sup> Because of this, they may be more reluctant to alienate the private sector than federal officials who have greater powers to control capital and the location of industry.

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<sup>3</sup>The analysis implies that the flow of capital determines the flow of labor, and this is why public officials are more concerned about firm relocation than skilled labor migration. While not the most common assumption, this cause-and-effect relationship has is often used to explain regional change. During the 1970's, for example, the Northeast region and the Commonwealth of Massachusetts, in particular, experienced a substantial migration of people to the western, north central and southern parts of the country. The explanation for this phenomena is typically that the two recessions of the 1970's, which were longer lasting and more severe in the state than elsewhere, created the conditions by which the labor force decided to move to regions with more available and better paying employment. For typical studies of this kind, see Massachusetts Division of Employment Security, Population and Labor Force Projections for Massachusetts, Labor Area Research Publication (Commonwealth of Massachusetts: Government Printing Office, 1980), and Bernard Weinstein and Robert Firestone, The Rise of the Sunbelt and the Decline of the Northeast (New York: Praeger Publishers, 1978).

In conclusion, the structure of the formulation of economic policy in a market economy may be different at each level of government. The key variables are the size of a region and the powers of a government to control the flow of capital. With no powers to control capital at the 'little' state level of government and the relative ease of firm relocation, the objective of economic policy has become one of minimizing conflict while satisfying the needs of the existing business community.

APPENDIX V

People Interviewed for the Study

Robert Barry, Massachusetts Legislature  
Representative Royal Bolling, Jr.  
Senator John Brennan  
Representative Thomas Brownell  
Senator Anna Buckley  
Representative John Businger  
Sarah Carroll, Office of Coastal Zone Management  
William Chouinard, Greater Boston Chamber of Commerce  
Representative Gerald Cohen  
Representative Nicholas Costello  
John Crosier, Department of Commerce and Development  
Robert Cummings, Monsanto Company  
David Danning, Office of Economic Affairs  
Warren Dillon, Department of Commerce and Development  
John Dolan, Massachusetts Legislature  
Governor Michael Dukakis  
Lawrence Fitzmaurice, Department of Revenues  
Senator John Fitzpatrick  
Representative Barney Frank  
Representative Robert Gillette  
Alex Gordon, Department of Revenues  
Representative John Gray  
David Hakanson, Department of Commerce and Development  
Senator Robert Hall  
Senator Kevin Harrington  
David Harris, Department of Commerce and Development  
Senator Kevin Harrington  
David Harris, Department of Commerce and Development  
John Hodgman, Department of Employment Security  
Deborah Howard, Audubon Society  
Ralph Jordan, State Employment Training Council  
Representative Raymond Jordan  
Joseph Kane, Department of Labor and Industries  
Robert Kane, Department of Revenues  
Andrew Kariotis, Alpha Industries  
Richard Kendall, Department of Environmental Management  
Representative Melvin King  
Joseph Lawless, Massachusetts Legislature  
Senator Michael LoPresti  
Representative John Loring  
Representative Thomas Lussier  
Senator Robert McCarthy  
William McCarthy, Associated Industries of Massachusetts  
Senator Allan McKinnon  
Terence McLarney, Massachusetts Law Reform  
Thomas McLaughlin, Department of Environment Quality Engineering

Representative John Menard  
Nicholas Metaxas, Department of Revenue  
Walter Meuther, Associated Industries of Massachusetts  
Representative David Mofenson  
K. Heinz Muehlmann, Associated Industries of Massachusetts  
Evelyn Murphy, Office of Environmental Affairs  
Representative John Murphy  
Representative Mary Murphy  
Representative Andrew Natsio  
Representative John McNeil  
Representative Thomas Norton  
Senator John Olver  
Frank O'Neill, Department of Commerce and Development  
Representative Kevin Porier  
Representative William Robinson  
Eleanor Rowe, Department of Employment Security  
Representative Michael Ruane  
Senator William Saltonstall  
Fred Schlosstein, Massachusetts Legislature  
Representative Richard Silva  
Senator Allan Sisisky  
Jim Sledd, Associated Industries of Massachusetts  
Howard Smith, Office of Economic Affairs  
James Snow, Department of Labor and Industries  
Representative Theodore Speliotis  
Dan Travers, Department of Environmental Quality Engineering  
Suzanne Tompkins, Massachusetts Taxpayers Foundation  
Joan Tuttle, Consultant  
Michael Ventresca, Office of Environmental Affairs  
Frank Wezniak, Adar/Associates  
Representative Bruce Wetherbee  
John White, Department of Revenues  
Representative Paul White  
Representative Francis Woodward

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