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**Firm Interests in Uncertain Times:  
Business Lobbying in Multilateral Service Liberalization**

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**Abstract:**

Many observers agree that the multilateral liberalization of service trade was a response to the intense lobbying efforts of financial service companies. In contrast, many of the firms that were affected by the General Agreement on the Trade of Services did not know where their interests lay in the multilateral negotiations and only began to work with their governments very late in the process. This paper shows that the preference evolution of service companies – both the first movers and the late comers – cannot be explained with reference to material rationality only. As a radically new trade issue, service trade was a realm of great uncertainty for business and they relied on social devices rather than pure economic calculations to determine how to position themselves on liberalization. In times of uncertainty, the differential logic of social embeddedness and the institutional constraints of a firm’s national setting are therefore a more appropriate indicator for business demands than material incentives arising from the global economy.

Uncertainty is one of the most constant facts of life, and all social sciences have dedicated entire libraries to the subject. Yet treatments of what is uncertain and how and whether this uncertainty can be resolved vary widely, even if we only consider economic activity.

Uncertainty can refer to our lack of knowledge or difficulties in categorizing, the ambiguities of social settings, the risks we face or, more fundamentally, our inability to foresee the future. Focusing on the latter, a growing body of literature in both political science and economic sociology seeks to analyze how individuals or organizations cope with uncertainty in order to engage in economic activity despite – or because of – their lack of knowledge about the future (see Abdelal/Blyth/Parsons forthcoming). Most simply put, scholars in this perspective are interested in understanding why and how political economies function even though we only have limited capacities to estimate the probabilities of future outcomes.

When economic activity becomes routine, it is difficult to get a sense of the ever present shadow of the future and the fundamental role it plays in every day decisions. We have seen that people adjust expectations in times of crisis, but the same also happens in situations of change that are less cataclysmic (Streeck/Thelen 2005; Genieys/Smyrl 2008). This article shows that uncertainty about the future is crucial to understanding firm decisions about their political activities on global trade. It focuses on service trade, a new issue that emerged in the 1980s, and asks why American and European firms invested time and effort into lobbying on an issue from which they were not sure to benefit. Instead of defending monopoly rents, many service companies turned to support the multilateral liberalization of their home markets. This surprising support is difficult to explain with regards to the pay-off structure of the changed regulatory regime (Crystal 2003b). However, once we consider the relationships firms held with potential competitors and their governments during the time in which they had to readjust their expectations about future activities, it becomes clear that their

beliefs and their self-understanding crucially hinged on the ways in which they were embedded in the regulatory and political contexts.

Traditionally, studies of trade policy lobbying in International Political Economy tends to deduce interests from material consequences of liberalization or protection (Frieden 1999).<sup>1</sup> This article argues that such assumptions are more appropriate for tariff negotiations in the trade of goods than for the study of new trade issues such as service trade or regulatory harmonization. For the latter, the question is no longer whether or not to liberalize trade but how to liberalize trade in a given sector. In this context, business-government relations are much more characterized by mutual learning than they are by firms exerting pressure in the pursuit of a predefined goal. However, this learning process does not happen in a vacuum, but is fundamentally constraint by the regulatory context. By comparing two classical formulations of economic activity under uncertainty – John Maynard Keynes’ and Friedrich von Hayek’s – the article calls attention to the importance of increasing competition in related sectors for the ways in which firms process information and prepare the future.

A first section presents the lessons from economic sociology and classic political economic thought for the analysis of business government relations on trade. A second section introduces the radical transformation of service trade during the 1980s and 1990s. The paper then analyzes how adjust their beliefs and identities over the course of transformation, which in turn contributed to the continued reform of service trade. A final section reviews the evolution of policy stances. It underlines the changes in the institutional context that led economic actors to adjust their demands, which implies that they vary across sectors and countries. The conclusion ties the findings back to the general discussion about uncertainty.

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<sup>1</sup> For a detailed discussion of this literature and existing trade policy models, see Woll (2008).

## 1. The Inability to Foresee the Future

Economic sociology has criticized the reductionist perception of rationality employed in neo-classical economics, which tends to portray all decisions as the result of logical calculations. In order to project oneself into the future, uncertainty then becomes merely a case of risk, where probabilities can be assigned, either to the likelihood of the event or to the most likely reaction of everybody else to an event (see Knight 1921; Beckert 1996; Beckert 2003). This neo-classical model is at the basis of materialist-rationalist political science and informs the literature's understanding of stability and social change (Blyth 2006). In particular, it has been fundamental to theories in international political economy about business government-relations on trade (Woll 2008). With its reliance on neo-classical assumptions, international political economy has not been very affected by other currents in economics that focus on fundamental uncertainties, such as behavioural economics, signalling theory, models of herd behaviour or the heterodox schools such as the French *économie des conventions* or the *théorie de la régulation*. In an attempt to distance themselves from functionalist and structuralist approaches, both neo-classical economics and political economy theories in political science on trade focused on the material self-interests of economic actors as a convenient entry point to a more general analysis of collective decision-making and social order. Interests are thus used to do the explaining; they are not what needs to be explained. This position is in striking contrast to many of the great classics in political economy, from Adam Smith's *Theory of Moral Sentiments* to the writings of John Maynard Keynes and Friedrich von Hayek.

Concerning uncertainty, Keynes and Hayek's perspectives are particularly insightful and have much in common with the perspectives adopted in economic sociology. Like Frank Knight, both writers have made the role of radical uncertainty explicit and addressed the

related questions of epistemology.<sup>2</sup> Both agree that we have no way of knowing the future: values and probabilities assigned to future outcomes need to be explained with reference to the person who assigns them, not an apparently objective reality, an approach which has been labelled “economic subjectivism” (see Butos/Koppl 1997). Keynes, who shared a Cartesian vision of knowledge as justified beliefs derived from experience and argument, insists that it is impossible to establish a list of every possible future outcome, so “our existing knowledge does not provide a sufficient basis for a calculated mathematical expectation,” (Keynes 1973: p. 152).<sup>3</sup> In *The Sensory Order* Hayek argues that ‘experience’ has to be categorized to be understood, but that our categories are in turn influenced by experience. This endogenous theory of knowledge, where we constantly update our mental categories and experiences, implies that all knowledge is subject to revision and therefore fallible. Individuals live “as much in a world of expectations as in a world of facts,” (Hayek 1952: 121). Hayek (1989) therefore argued vigorously in his 1974 Nobel lecture against “the pretence of knowledge” in both politics and economics.

As a result of these divergent epistemologies, Keynes and Hayek differ in their explanations for economic action under uncertainty. For Keynes, entrepreneurs “embarked on business as a way of life,” not just calculation (Keynes 1973: 150). However, the advent of the stock market, exacerbated the instabilities created by our inability to “defeat the dark forces of time and ignorance,” by separating ownership from management, which creates room to speculation (Keynes 1973: 157). To account for the waves of optimism and pessimism observed in stock markets, Keynes notably points to the likelihood of spontaneous

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<sup>2</sup> Many other economists have done so as well, in particular G.L.S. Shackle and Ludwig Lachman, but they have arguably been less influential on the evolution of economic theory and perspectives on political economies. For a history, see (Schmidt 1996)

<sup>3</sup> Moreover, he accuses those that espouse mathematical calculations of falling pray to “market place idols.” Classic economic theory, to him, is “one of these pretty, polite techniques which tries to deal with the present by abstracting from the fact that we know very little about the future.” (Keynes 1937) p. 215.

and uncalculated group behaviour, which he termed “animal spirits” (Keynes 1973: 161-2).<sup>4</sup>

But even in all other settings, he suggests, people tends to align with the behaviour of majority, because they know that their “own judgement is worthless” and assume that maybe “the rest of the world is better informed,” (Keynes 1937: 214).

Hayek focuses much less on mass psychology, but sees economic action as a continuous process of learning. In fact, he sees knowledge not as “belief states” but as practice (Buto/Koppl 1997: 337-340). Understanding how order or disorder arises requires studying practice and the rules of conduct, not the content of people’s intention. More precisely, Hayek argues that the evolutionary conditions of the economic environment influence the reliability of economic expectations. Competition, in particular, makes it necessary for individuals to think strategically how to prevail, which leads to the emulation of those that appear to follow the winning strategies. Put differently, “it is not rationality which is required to make competition work, but competition [...] which will produce rational behaviour,” (Hayek 1979: 75-76).<sup>5</sup> Economic expectations about the future are constantly compared and updated in the market process. They do not precede economic activity nor do they cede much ground to animal spirits.

Both Keynes’ and Hayek’s understandings of economic action under uncertainty rely on social mechanisms. For Keynes, the urge to action will lead individuals or organizations to behave like those around them; for Hayek, the nature of social selection processes encourages them to determine the most appropriate behaviour and the updating of mental categories occurs in the present social realm.<sup>6</sup> These propositions correspond to several of the insights in

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<sup>4</sup> “Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits - a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities,” (Keynes 1973: 162-162) p. 161-2.

<sup>5</sup> This corresponds to what Beckert has called “a systemic limitation to irrational behaviour on the part of the firm,” (Beckert 1996: 804).

<sup>6</sup> Hence, the fundamental difference between Keynes and Hayek is their view of order and disorder in markets. Whereas Keynes considered disorder to be inevitable in modern markets, Hayek viewed the market mechanism as the central tool for convergent expectations and coordinated behaviour.

the field of economic sociology. Sociological institutionalism, for example, has underlined that institutions affect behaviour by encouraging mimetism (DiMaggio/Powell 1983). Unlike herd behaviour, mimetism is based on new cognitive categories that are created by watching key actors, which those that feel insecure about their knowledge of the future adopt as reference points (Piotti 2007). The institutional setting is thus an ordering device which induces behaviour by shaping expectations about the future, not the other way around (DiMaggio/Powell 1991). Moreover, since expectations reflect the present and the rules of conduct, analysts can know little about their content in the abstract, since it will evolve over time and is highly contingent. For economic sociologists, uncertainty is a situation of “double contingency, where actors make their actions reciprocally dependent on each other,” (Beckert 1996: 805; Parsons/Shils 1951). Expectations about the future are not simple “best bets” about what will really happen, but contains information about what others think will really happen as well. This means that reciprocally adjusted behaviour can create “performance effects”: since actors (intersubjectively) believe something will happen, they behave in a way that turns their beliefs into a self-fulfilling prophecy (MacKenzie 2006; Callon/Millo/Muniesa 2007). Scholars therefore need to study the ways in which individuals relate to each other, rather than trying to predict market behavior *ex ante*, which cannot be known since the content of expectations depends on the web of relationships (cf. Latour 2005).

In this article, I will show that classic trade policy predictions based on the material interests of firms fail to account for the policy stances actually observed, because they assume that interests are exogenous to the policy process. Although business-government relations were tight during the service trade negotiations, they cannot be understood as one-sided lobbying, but rather as a process of mutual learning, where firms adjust categories for thinking about themselves and their business activities over time (Crystal 2003a). Institutional rules – and in particular the changing coverage of competition in service markets – are crucial



ordering devices that help to understand the nature and timing of business objectives much better than the actual material pay-off structure of the new policy regime. Moreover, redefining categories happened in close contact with competitors and government representatives. Studying the stakes in the relational structure is thus crucial for understanding the differences in policy stances across sectors and countries. At a theoretical level, the article shows that firms are intentionally rational actors, but the content of their activities depends on their social embeddedness and evolves over time; arguably a more “constructed rationality” than the one assumed in traditional trade policy models (Woll 2008: 7).

In the following, the article highlights the stakes of international service trade and underlines the initial reservation that arose from the reframing of service operations as trade. In a section about identity and ideas, it then turns to the two most important categories that were adjusted over the course of business-government relations: the firms’ self-understanding and their beliefs about the nature of business government relations.

## **2. From service provision to competition**

Traditionally the invisibility and temporariness of services had contributed to their neglect in trade affairs: at best they were considered a derivative of goods, at worst entirely unproductive. As part of the “tertiary sector”, which included everything that was not manufacturing or agriculture, service transactions between countries showed up in national accounts under the broad label “invisibles.” With shifts in economic structures, the growth of service sectors, and the increased international activities of large multinational service companies, this conception began to change. After initial discussions in the United States and under the auspices of the Organization for Economic Cooperation and Development (OECD) in the 1970s and early 1980s, services were included in the Uruguay Round negotiations of the General Agreement on Tariffs and Trade (GATT) from 1986-1994 (Drake/Nicolaïdis

1992). Despite considerable difficulties, the negotiations led to the General Agreement on the Trade of Services (GATS), which entered into force as one of agreements governed by the newly created World Trade Organization (WTO) in January 1995. To determine how to go about implementing the agreement, sectoral negotiations began at the same time (see Mattoo/Sauvé 2003). Some sectors were excluded from the reach of the GATS, but in international air transport, liberalization nonetheless advanced through bilateral and plurilateral agreements called open skies.

Making services a matter of trade between nations was a quantum leap in the ways in which government and firms thought about their activities: a “revolution in social ontology” according to Drake and Nicolaidis (1992: 38), who underline that “services had been regulated heavily for centuries and state institutions and organized constitutions opposed to open competition were embedded deeply in domestic politics.” Within a decade, the easing of capital flows, the entry and operation of foreign firms, the interconnection of transport and communication networks or the recognition of diploms and licenses of foreigners was discussed under the broad label of service trade and led to new sectoral categories such as “financial services”, “professional services”, “communication services” or “transport services”.

Within each sectoral negotiation that ensued during the 1990s, the stakes were considerable. In the following, we will concentrate on two sectors in particular to compare the evolution of business lobbying: telecommunication services negotiated under the GATS from 1994-7 and international air transport, where liberalization was pursued bilaterally. In telecommunication services, international exchanges in telecommunication services were traditionally governed by inter-firm agreements under the technical oversight of the International Telecommunications Union (ITU) (Cowhey 1990). Within national boundaries, the most common model of telecom provision was through a monopoly provider, often in the

hands of the government, to insure the maintenance of the network and universal services to even the most remote regions (Noam 1992; Guerrieri/Scharrer 2002). For technical standards and defence reasons, international air transport was traditionally regulated through an extensive network of bilateral agreements, which specified every aspect of business operations such as the company, the size of the fleet, the frequency of operations and the number of stops (Richards 1999).

The liberalization of services was therefore not just a matter of international negotiation, but first and foremost of domestic regulation and advanced simultaneously at the national and the international level, albeit at very different speeds and to different extents according to sectors of activity and countries (Mattoo/Sauvé 2003). The most important reforms towards less government intervention and consumer-oriented politics of deregulation occurred in the United States in the 1970s and 1980s (Derthick/Quirk 1985). In the United Kingdom, Margaret Thatcher's government undertook similar reforms of privatization and marketization of public services. At the regional level, the turn towards market-based forms of governance inspired those that sought to integrate the European Communities through the completion of a common market in the mid-1980s (Jabko 2006). Liberalizing service markets became an essential element of the European market project, which the European Commission and liberal member states pursued through a mix of judicial instruments, intergovernmental negotiations and national reforms (Schmidt 1998; Thatcher 2007; Nicolaïdis/Schmidt 2007).

The driver behind regulatory reform was a network of actors which defined and redefined their objectives as they went along. At the domestic level, policy advisors and economists, user companies and consumer lobbies pushed for change and forged alliances with parts of the government interested in reform. At the international level, public officials within supranational institutions saw an opportunity to further their organisations' objectives

through the means of service liberalization. Multilateral service liberalization through global trade negotiations was advanced by multinational companies and governments that hoped to advance their negotiation objectives by introducing a new issue to the Uruguay Round (Sell 2000). However, with the exception of the select group of multinational companies such as Citigroup or American Express that spoke as both service providers and user companies, most companies concerned by service liberalization did not immediately turn their attention to the multilateral negotiations. In fact, even half-way through the sectoral negotiations that were launched after the conclusion of the Uruguay Round in the 1990s, many of the service providers did not engage in trade policy lobbying. But during the mid-1990s, things changed. After financial service companies, telecommunication companies and even network providers spoke out in support of the multilateral liberalization. Independently from the WTO talks, European airlines began to lobby for more liberal bilateral and transatlantic agreements in the late 1990s.

How did this shift in business policy stances arise, even though many of the companies concerned previously benefited from privileged positions in their home markets and even monopoly rents? To be sure, service firms did not all have the same motives or engage in the same amount of lobbying activities. Determined and aggressive first movers such as American Express, Citigroup, Time Warner, and MCI, saw important opportunities in foreign market access. More ambiguous activists included the U.S. regional bell operator NYNEX, which supported liberalization but insisted simultaneously on the need to protect the home market investment of incumbents threatened by new competition. Similarly, many airlines advocated liberalization, but only if it came with certain control mechanisms to protect their interests. Still, why did these companies decide to lobby in favor of liberalization? Since lobbying in support of liberalization has far-reaching consequences, even if it is just lip service, it is important to understand what motivated these policy stances.

### **3. “We had to change our thinking”: adjusting beliefs and identities**

A comparison of the evolution of policy stances of telecommunication companies with those of airlines that were not directly affected by the GATS negotiations reveals a very similar pattern. The political activities of firms happened in close interactions with competitors and governments. In evaluating the best plan for action, firms constantly reviewed the strategies of their competitors. When immediate competition became a reality at the national or European level, they adjusted the categories with which they thought about their international business activities and their own corporate identity. This adjustment in turn paved the way for a more liberal multilateral agreement, which crucially hinged on firm support. Before turning to the sequences of this development, it is instructive to see when firms began to affirm that they had to “change their thinking” in order to survive in an uncertain future. On the one hand, firms adjusted the categories with which they thought about their international activities from service provision to trade. On the other hand, and at a more fundamental level, the turn towards trade came with a new corporate identity: over time, firms started to conceive of themselves no longer as national champions, but as competitive players in a global market.

#### ***Beliefs: from reciprocity and interconnection to trade***

Even though international activities were crucial for many service providers, few thought about them as trade. For most network providers, financial advantage was tied to home market dominance and they had spent considerable effort protecting their privileged position and demanding government subsidies. International operations were a matter of connecting national networks, through joint provision of services or reciprocal service agreements. The logic of these government-sponsored and negotiated regimes was tightly

linked to national boundaries, which many companies defended firmly, even if they simultaneously sought to invest abroad.

The logic of trade and the negotiation of more general rules for foreign market access were not immediately clear or appealing to firms operating within the traditional regimes. Even private and competitive service companies knew little about trade, which was a long and highly legalistic process. One of the pioneers of service trade lobbying recalls first coming in contact with trade issues in the early 1980s: “I went home and got this book called *The GATT* to learn anything there was about this.”<sup>7</sup> The lack of knowledge was striking on both sides, remembers a US business representative from the telecom industry: “Most trade representatives had never worked on telecommunications, and most telecom people had never worked on trade.”<sup>8</sup> One or other aspect of the issues was new to each of the participants, whether governments or companies. Defining a policy stance in a context with so many unknowns was a challenge and initially led to hesitation and reservations on almost all sides.

Among U.S. companies that had chosen to follow the early developments, there was a sense that the ambitions of the trade agenda were ill-matched with the realities of their industries. The abandonment of previous agreements and the ideas enshrined in the most-favored nation principle seemed quite threatening. When reading a draft of the GATS, most company representatives felt “that our entire business could be traded off against bananas.”<sup>9</sup> Even after the establishment of the WTO and its dispute settlement system, companies remained sceptical of the trade system as a commercial tool. A US business representative remembers hearing that bringing a case will take about 18 months: “I started imagining explaining this to my CEO. 18 months, how many financial quarters is that?”<sup>10</sup>

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<sup>7</sup> Interview in Washington D.C., 8 April 2003.

<sup>8</sup> Interview in Washington D.C., 2 July 2003.

<sup>9</sup> Interviews in Washington D.C. and Brussels, 13 November 2002, 24 April and 2 July 2003.

<sup>10</sup> Interview in Washington D.C., 25 June 2003.

In international air transport, airlines reject the intersectoral bargaining associated with trade negotiations all together and were even suspicious when their government began negotiating consumer-oriented open sky agreements that opened up traffic rights to all carriers between two countries. United States carriers were worried that their government was offering new market access to American gateways in return for liberal treatments of fares or capacity only. Airlines were used to reciprocal exchanges and had a hard time understanding the benefits of these new negotiations. At the time, the rallying cry of the U.S. industry became “hard rights for hard rights,” (Yergin/Vietor/Evans 2000: 46). Reciprocity, not market access, was the most important objective, since it helped to maintain a higher level of protection at home.

Nonetheless, some companies such as AT&T, MCI, and Sprint in the telecom sector, were active even during the late phase of the Uruguay Round. A representative of the European Commission confirms:

They were following it pretty closely. I am not sure how well they followed it, but they certainly followed it closely . . . but without necessarily understanding all of the implications of what they were doing.<sup>11</sup>

European companies, by contrast, remained “remarkably uninterested in the whole process.”<sup>12</sup> At the time, international telephony was discussed through negotiation of interconnection modalities in the ITU. For many providers, the WTO only entered the picture once it examined an issue traditionally dealt with by the ITU: accounting rates. Overall, European companies started organizing only in the mid-1990s. At that point, “there was such an empowerment of the WTO that many companies discovered its importance.”<sup>13</sup> The same is true for U.S. companies. Within only two to three years, the stakes had become clear and salient to almost everybody.

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<sup>11</sup> Interview with a representative of the European Commission in Brussels, 3 September 2003.

<sup>12</sup> Ibid.

<sup>13</sup> Interview with the representative of a European network provider, 3 July 2003.

The reframing of international telecommunication business in terms of trade was a collective process. Each participating company studied the behavior of other actors in order to best anticipate what the most useful behavior might be. For some companies, the rationale for supporting liberalization was ideological. It was tied to a larger reflection about competition and access, at least at a rhetorical level. A company representative explains,

MCI would like to think that it created competition . . . in the world of telecommunication services. So the view was always: competition is good and incumbents should be denied to prevent competitors from entry.<sup>14</sup>

However, U.S. carriers were not even sure about the monetary benefits of a WTO agreement. It is true that under the accounting rate system, the net settlement payments U.S. carriers made to other countries continued to rise to \$5.4 billion in 1995 and to \$6 billion in 1996. However, the costs of these payments were born by the telephone users, not the companies. In fact, the biggest profits for U.S. carriers still came from providing international telephone services under the traditional framework, in spite of the U.S. deficit (Yoffie/Bergenstein 1985).

A [company like] AT&T wanted to expand globally if it could win effective competitive opportunities in the domestic market of foreign countries, but it was not sure that it had an interest in changing the basic rules for providing international telephone services between countries (Cowhey/Richards 2000: 156).

What then explains the broad support of the telecom companies for the WTO liberalization project? To some degree, their mobilization has to be understood as an attempt to jump on a train that had visibly started moving. User groups and financial service companies had advanced the issue of service trade liberalization to a point where telecom companies started perceiving it as inevitable. Other companies joined despite the fact that they were not sure about the benefits of free service trade.

A lot of companies were skeptical. They were wondering what we were doing, thinking that there were some ulterior motives behind our plans. . . . But they

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<sup>14</sup> Interview with a U.S. business representative in Washington, D.C., June 2003.



joined us because they wanted to take part in a process they were afraid of at least to control where it was going.<sup>15</sup>

Embracing trade as the new frame of reference happened because telecom companies realized that if they were not prepared to participate in the reshaping of their regulatory framework, the world would move on without them. Similar anticipative behavior might even explain why internationalization became a major theme for telecom companies in both the United States and Europe through the 1990s. Even though “they did not earn their largest profit margins by executing global strategies, . . . big phone companies believed that user needs would force them to go global, ” (Cowhey/Richards 2000: 156). In essence, the real driving forces behind liberalization were governments and user firms. Telecom companies eventually ended up supporting the new design with the same enthusiasm, essentially because they felt that they needed to seize these new opportunities in order to gain a competitive advantage in the future global market.<sup>16</sup>

It happened during the time of the internet bubble. New markets were potential jackpots. All analysts were advising to go into it. Billions were invested into nothing.<sup>17</sup>

The reframing of international telecom operations as trade and no longer as interconnection and the joint provision of services had happened as a result of business-government and business-business interactions, where ideas about the relationship between operations and future profits were communicated and diffused.

For airlines, the U.S. led policy of open sky agreement similarly changed the stakes. With the fading possibility of reciprocal air service agreements, airlines started thinking in terms of economies of scale. Watching their competitors, they became very intrigued by the new commercial possibilities these agreements offered through the possibility of alliances. In fact, in the years after the Dutch open skies agreement, the KLM/Northwest alliance revealed

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<sup>15</sup> Interviews with business associations in Washington, D.C., and New York, 2 and 8 April 2003.

<sup>16</sup> U.S. industry representatives actually greeted the negotiating team at a briefing session two days before the conclusion with signs reading “Wildly Enthusiastic.” (Sherman 1998)

<sup>17</sup> Interview with a business representative in Brussels, 13 November 2003.

itself as very beneficial to the carriers involved, and the Amsterdam and Detroit/Minneapolis hub became a model for other carriers.

They had this huge demand, beyond the people that were flying from Detroit to Amsterdam, because people then connected. It was extraordinary: the carriers were making a lot of money and providing a good service. So other carriers said: “We have got to go do this!”<sup>18</sup>

Carriers which had initially opposed the KLM/Northwest alliance because they did not have the same opportunity realized that there was no use resisting this development:

We had to change our thinking. We had to realize that it does not matter that there is a very precise exchange as long as we can create this environment where we are allowed to create global entities in strategic positions.<sup>19</sup>

The obvious success of the early alliances set off “a race for everybody to find a suitable alliance partner,” explains the airline representative. The maxim of these years was: “go get a partner and get their government to open their market.”<sup>20</sup> Eventually, all international carriers developed “bad cases of alliance envy.”<sup>21</sup> This motivation explains the overall airline support the open skies policy enjoys today. The U.S. open skies policy forced American and European airlines alike to stop thinking in terms of reciprocity and to start concentrating on economies of scale that airlines could exploit in a more global aviation market. This cognitive shift, in turn, made European airlines acutely aware of the limitations of the existing system for their own expansion and led them to propose more liberal agreements such as a common transatlantic framework, which eventually led to a multilateral open sky agreement in 2008 (Woll 2006). All international carriers agree today that the open skies approach has served their interests well.<sup>22</sup>

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<sup>18</sup> Interview with a U.S. government representative, Washington, D.C., 10 April 2003.

<sup>19</sup> Interview with a U.S. airline representative, Washington, D.C., 25 April 2003.

<sup>20</sup> Ibid.

<sup>21</sup> Interviews with U.S. airline and government representatives, Washington, D.C., 24 and 25 April 2003.

<sup>22</sup> Interviews with U.S. government and airline representatives, Washington, D.C., 10, 24, and 25 April 2003.

### *Identities: from national champions to global players*

A more fundamental transformation behind the new policy demands was the changing self-conception of the firms. Some firms, such as financial service providers, long distance telecom companies, or US airlines were competitive service providers from the beginning. A study of European and American monopolists reveals, however, that variation between companies depended on the degree to which they embraced their new corporate identity or insisted on their often public incumbent status.

For European monopolists, part of the transformation happened through national reforms which separated service provision from government administration. By 1996, “Deutsche Telekom and France Télécom looked very similar to AT&T,” and observers began to feel “that this was a company.”<sup>23</sup> Throughout the 1990s, operators in Europe were separated from government administrations and struggled for a greater degree of commercial autonomy (see Thatcher 2007). The European Commission exploited these developments by associating company representatives in diverse consultations such as the top-level group around Commissioner Martin Bangemann in the context of the EU Telecom Review between 1992 and 1993. For the first time, the operators in this group were represented directly by the heads of the companies in a European setting. This proved particularly helpful, because operators began to support and even drive the reform process at the domestic and European level.

Organizations like France Télécom started pursuing the self-interest of commercial autonomy. In exchange, they were ready to give up their monopoly over service provision. Of course, at the time, they did not know what that would actually mean. In 1993, we made the compromise to open up the monopoly in 1998 only. And everybody thought, “five years is a long time.”<sup>24</sup>

Fundamentally, most European operators were torn between the desire to develop their commercial autonomy and the desire to receive privileged treatment. However, national

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<sup>23</sup> Interview in Geneva, 24 October 2003.

<sup>24</sup> Interview with a Commission representative in Brussels, 10 September 2003.

treatment is not always politically feasible, as telecom companies learned in the 1990s. The reorientation of these operators toward the pursuit of commercial autonomy was facilitated by the boom in the telecommunication industry at the time. Against the background of growth and expansion of the industry, “every company wanted to become a European or a global leader in a certain number of segments,” a business representative emphasized.<sup>25</sup>

Technological change and the growth potential of the industry at the time provided important incentives for European operators to assume their new roles as competitive players in the future European and global markets.

The transformation was quite similar for regional operators in the U.S.. During the preparation of the Telcom Act of 1996, regional bell operators started anticipating the new regulatory context and preparing international commercial strategies. In particular, they started major foreign investments in New Zealand, Australia, Mexico, Chile, and Eastern Europe. One might assume that internationalization through foreign direct investment led the Regional bells to support market opening more generally. Yet they mainly invested in incumbent telephone operators abroad, which were in a similar position to that of the regional bells in the United States. The lack of competition in those countries tended to drive up margins for the operators they had a share in. A WTO agreement, Cowhey and Richards (2002: 104) argue, was likely to expand the number of competitors in those markets and reduce their profitability.

According to this calculation, the regional bells should simply have been opposed to the GBT negotiations. However, this was not the case. Especially NYNEX, which had the most extensive network of foreign investment, but also SBC (formerly Southwestern Bell) and Bell South, supported the WTO liberalization actively.<sup>26</sup> However, reservations about liberalization got attached to the ways in which liberalization was pursued. In this context, the

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<sup>25</sup> Interview with a European network operator, 3 July 2003.

<sup>26</sup> Interview in Washington, D.C., June 2003.

domestic regulatory negotiations turned out to be crucial for explaining the international expectations of U.S. companies. In particular, regional bells insisted on a regulatory framework within the WTO that mirrored the Telecom Act of 1996. The position of the U.S. operators was shaped by their desire to move into international markets, but also by their interests as incumbent operators in the domestic market in the United States. As for European network operators, the transformation of the regulatory context and consequent changes in the nature of these economic actors profoundly affected their policy stance on multilateral liberalization. Incumbent operators defended positions that were quite different from competitive service providers, despite comparable foreign direct investment and international activities that might benefit from a WTO agreement. Understanding these positions thus requires understanding the deep ambivalence that came from its dual identity of being both an incumbent and a global competitor in mid-1990s.

Similarly, European airlines moved from being “flag carriers” to licensed European carriers competing within and outside the European market. Until the 1990s, most European flag carriers were difficult to separate from their governments and naturally accompanied their countries’ negotiators in all negotiations. Heavily subsidized, airlines were public service providers and profitability was not a real concern, as a quick look into their balance sheets in the early 1990s can attest. During much of European negotiations concerning an internal aviation market and international air transport, they argued vigorously for government subsidies and emergency aid (Dobson 1995; Young 2002). At the same time, a coalition of liberal minded member states and airlines and officials from the European Commission pushed for the integration of the European market. Once liberalization was agreed upon through three packages in 1987, 1990 and 1992, all airlines realized that they would be on equal footing within Europe by 1997. Internal liberalization was thus a key turning point in the mobilization of European carriers, which began pushing for transatlantic liberalization in

the late 1990s with reference to their competitive opportunities and the necessity to consolidate. The idea of a flag carrier had lost its meaning in an integrated European market.

Changes in the identity of firms played a less important role in the United States, because airlines already evolved in a more or less competitive multicarrier environment, at least in international aviation. Within the domestic market, by contrast, there is a clear dividing line between traditional airlines and low-cost carriers such as Southwest and JetBlue. This became clear when British citizen Richard Branson announced that he wanted to establish a carrier in the United States, Virgin America, which would operate flights from San Francisco to New York. While all major carriers opposed the proposition, JetBlue Airways, which would be most affected because it derives about one-third of its revenue from flying coast-to-coast, supported the initiative.<sup>27</sup> Like MCI in the telecom sector, the low-cost carriers consider themselves defenders of competition and do not lobby for market barriers, even though they face the strongest economic incentives to do so.

#### **4. The evolution of policy stances from a sociological perspective**

In both sectors and regions, the evolution of firms' policy stances and political strategies happened in a context of continuous surveillance of competitors and government opportunities and was accompanied ensuing adjustment of categories. But new beliefs and identities did not cause the changes in their strategic behavior. The learning process and the adaptation of categories were triggered by experiences and events that firms classified in order to deduce information about the future from them. A crucial ordering device in all of the cases is the advent of competition. At the regional, national or supranational level, changes in the regulatory framework led to comparison and category updating among competitors and therefore affected the firms' policy stances towards multilateral liberalization. Interestingly,

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<sup>27</sup> Jeff Bailey and Nicola Clark, "American Version of Virgin Atlantic Tentatively Approved," International Herald Tribune, 21 March 2007.

new regulatory frameworks did not have to apply to the international regime directly to trigger changes in the international policy stances of these firms. They merely served as strong signals about the most likely future development and thus supplanted very immediate material concerns firms faced in their international activities. Independent from the foreign investment and the stakes firms held in international operations, the timing of change varies considerably depending on the anticipated likeliness of competition in more local settings. The key turning points in the evolution of the political mobilization of service companies were therefore regional and sectoral changes in the regulatory frameworks and political opportunities, which explains why lobbying varied along these lines to a much greater degree than investment or revenue from international operations would suggest (Woll 2008: 56-61; Crystal 2003b).

In telecommunications, international service providers were the first to turn to support of a multilateral agreement, when they realized that user groups and the lobbying of financial service companies had set in motion a process that would continue with or without them. Regional network operators, by contrast, did not seize this political opportunity immediately. It was only in the preparation for the U.S. Telecom Act of 1996 that they realized that they would need to function as a competitive company. For observers, the new law was more extensive than the divestiture of AT&T in 1984: it “was the industry equivalent of the Berlin Wall being broken down.”<sup>28</sup> The struggle over re-regulation that regional bell operators carried from the Telecom Act negotiations to the WTO through the formulation of a reference paper attached to the final Basic Telecom Agreement testifies to the deep ambivalence the network operators had in their policy stance on multilateral liberalization. This ambivalence was shared by European operators, which also only mobilized multilaterally once the internal

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<sup>28</sup> Robert Mayer, senior manager of Deloitte Touche, quoted in Washington Post, 2 February 1996, p. A15.

liberalization had become certain. As a member of the WTO working group of the European Telecommunication Network Operators' Association underlines:

The date: 1 January 1998! That's when we knew liberalization would really happen. When we knew what would come, it became possible to promote a common platform concerning our goals for the international liberalization of telecommunications.<sup>29</sup>

The anticipation of political developments and the exposure to competition in local and regional settings changed how telecommunication companies anticipated the future. Although they could have still insisted on protection at the multilateral level, they preferred to concentrate on the opportunities of foreign market access to enable new expansionist business strategies.

In international air transport, the U.S. open sky policy fundamentally changed the policy preferences on both sides of the Atlantic. The more liberal agreements led to a new kind of competition through code-sharing and the international hub-and-spokes system that alliance partners were able to create. The positive experience led to wide-spread support for the bilateral liberalization but at very different degrees in the U.S. and the EU. While U.S. carriers had no reason to fear foreign competition in their domestic market, European airlines were faced with internal liberalization just like in telecommunications. Once the date – 1 April 1997 – for a fully integrated European market was known, airlines had to develop new strategies for competing internally and externally. The proposals for a transatlantic agreement which they developed in the late 1990s were therefore much more extensive than the demands of their U.S. counterparts and pushed for further liberalization. Some of the companies that risked being “consolidated away” in the ensuing reorganization of the European market supported transatlantic liberalization actively, in particular the Dutch carrier KLM, but also TAP Portugal. In order to further their political objectives, European airlines ended up working with the European Institutions rather than their national governments, despite the fact

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<sup>29</sup> Interview in Brussels, 3 September 2003.



that this meant losing the privileged relationships that they had enjoyed at the domestic level. New political opportunities and institutional change are thus crucial for understanding the evolution of policy stances of service firms: above all, changing competition rules, even if they do not apply directly to the political jurisdiction that negotiations actually center on.

## **5. Conclusion**

To summarize, across sectors and countries, the sequence of policy stances of service firms is comparable. When faced with new stakes, firms are initially confused and need to learn about their nature and functioning. During this phase, they mobilize little, but watch their competitors and interact with government representatives to acquire information and signals about the most likely consequences and the most adequate strategies. During a second phase, they need to decide on a plan of action. Some mobilize, either because they can identify clear benefits or because they are afraid to be left behind. Others prefer to adopt a more conservative perspective and remain silent or lobby against the policy proposal. During this phase, a crucial change happened in all of our cases at different moments in time, which explains why we observe such a great convergence and wide-spread support for multilateral liberalization: the introduction of competition in their local markets. This event precluded conservative protectionist strategies and pushed firms to engage on multilateral negotiations in order to contribute to defining its content. Firms did not just convert to an ideological support for market liberalization, but accepted that competition was going to be part of their daily routine, which meant that they needed to devise strategies for succeeding beyond their traditional markets as well.

Ironically, it is because firms anticipated competition and positioned themselves in general terms supportive towards negotiations at the multilateral levels that governments were able to negotiate agreements against the opposition of more conservative forces, such as

hesitant member states in the EU or Congress in the U.S.. Within the political game, the fact that even the firms that would be affected by international competition spoke out in favour of it gave an important political momentum to the reformers. To simplify somewhat, multilateral trade in service became a reality, because firms widely supported it, but many of the firms supported it, because they had accepted that it was to become a reality. In essence, one could argue that this is a political performance effect of lobbying, comparable to the performance effects of mathematical models used for predicting the economy (MacKenzie 2006).

The question of uncertainty is evident in context where institutional rules become fundamentally redefined. We do observe some uncalculated mass behaviour, as Keynes has suggested, but pure emulation can only tell us a small part of the story. The majority of firms were continuously trying to figure out where their interests lay, they calculated the potential benefits and tried to act in pursuit of them. Only, the benefits were anticipated and difficult to estimate, because firms faced many unknowns and had no comparisons with past experiences. The evolution of policy stances over time indicates that firms constantly updated the way they thought about their international activities and themselves and categorized new facts and experiences accordingly. This corresponds to Hayek's understanding of knowledge as practice, which is crucially shaped by institutional orders such as competition. Moreover, since they knew the importance of new institutional orders, firms became active to contribute to shaping the regulatory details the different agreements would contain. Indeed, Neil Fligstein (2002) has underlined that the interaction between firms and governments is crucial for market-making, and in particular for the shaping of control mechanisms, which are necessary to stabilize markets and therefore contribute to firm survival. In the end, many of the sometimes surprising political activities happened because firms wanted to contribute to the reduction of uncertainty, if only for a limited period of time.

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