# Defense against Recession: U.S. Business Mobilization, 1950–1970[1]

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The unexpected investment decisions of companies during recessions often frustrate commentators and policy makers who view the economy from the top down. Companies may act against immediate market signals during recessions because of uncertainties about strategy and the future direction of the economy. A mesolevel sociological model of how firms interpret and respond to economic conditions in uncertain times improves understanding of firms' variable responses to recessions, which cumulatively shape macroeconomic trajectories. Examining firm-level employment during four recessions from 1950 to 1970, the author generates results from dynamic panel models to show that firms set their employment levels against profits and market share and in alignment with peers and political affiliations. Firms manage uncertainty by imitating peers but also by endeavoring to construct their environment collectively through business associations. This article's counterintuitive economic findings and the evidence of social and political influences reinforce the importance of careful investigation into how firms respond to recessions.

## INTRODUCTION

The reactions of firms to macroeconomic trends often contradict standard economic expectations that investment should be directly related to demand

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and inversely related to its costs. Across 1979–94, Budros (1997) found that companies were more likely to downsize during growth years than during contractions. In the recession that began in 2007, commentators noted that profitable outfits were jettisoning workers (Schwartz 2010). The Federal Reserve lowered interest rates to accelerate investment, but major corporations instead responded by "stockpiling cash" (Bowley 2010, p. A1). These examples suggest that how firms interpret and respond to economic conditions during recessions is problematic. A sociological analysis of these firm-level reactions has much to offer for explaining the anomalous findings as well as to build our knowledge of how firms process and construct economic phenomena more generally.

Social influences are especially relevant to this analysis because recessions magnify both uncertainty and other firms' actions. The future direction of the economy is profoundly uncertain, with numerous experts debating whether an expansion has started or further decline is imminent, and the optimal response—whether to contract to protect core operations or invest to strengthen market position—is also the subject of much disagreement (Gulati, Nohria, and Wohlgezogen 2010). Furthermore, the success of each strategy is contingent on the choices of other companies, which cumulate into the business environment (Beckert 1996; DiMaggio 2002; Whitley 2004). Companies that act alone to either contract or expand are likely to experience subpar results. This suggests that companies will draw on external resources to formulate employment decisions as a way to manage uncertainties and improve alignment with their environment.

The recessions of the 1950s and 1960s in the United States provide a valuable setting to investigate these dynamics. This era was the scene of vigorous debates within the business community that shaped modern responses to recessions. The Committee for Economic Development (CED), an organization of U.S. business leaders and academics formed in 1942, campaigned for active efforts against economic downturns. The CED supported a number of countercyclical public policies, such as unemployment insurance, tax cuts, and deficit spending, as well as joint efforts by business to keep the economy growing. In contrast, the National Association of Manufacturers (NAM), a business group formed in 1895, defended a more classical response to economic turbulence. To remedy economic instability, NAM

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prescribed limited government, reliance on the profit motive, and more flexible adjustment of supply and demand. From NAM's perspective, stability would result from businesses acting to more rapidly conform to demand. Any attempt to alter market forces would only increase later instability.[2]

These opposing positions—the CED's stabilizing investment and NAM's market adjustment—continue to define the parameters of the discussion about how to manage the economic cycle. This debate has been distorted, though, by a singular focus on government policies and insufficient attention to the decisions of companies, which cumulate into macroeconomic conditions. What is missing is an analysis of why companies make variable investment decisions in the context of shared government policies and common national conditions. Drawing on diverse sociological and economic research, I develop and demonstrate the value of a model that includes firms' financial and competitive positions, the actions of peers, and ties to business associations. The goal is to expand our knowledge of the social processing and construction of economic phenomena to include business reactions to recessions.

To carry out this analysis, I use fixed-effects panel regression on firm-level employment from 1950 to 1970. The fixed-effects design provides a conservative test of the model by limiting the analysis to variation within firms and thus controlling for stable firm characteristics such as a company's labor regime. Controlling for numerous financial variables, strong ties to the CED and NAM result in more expansive and contractive employment practices, respectively, during recessions, while weaker forms of affiliation have consistent but less significant effects. During these downturns, corporate employment also moves in tandem with industry trends and against profits and market share. In supplementary analyses, I also track the top executives of companies to control for the stable political preferences of corporate leaders, and I consider whether differential patterns of investment abroad account for the political affiliation effects. The observed effects of the two business associations pass these rigorous tests, supporting the interpretation that the effects are exogenous. I focus on employment because it is one of the most prominent components of economic cycles, and, as a core business practice, it provides a significant test of the impact of social forces on economic behavior. Employment is also a factor of much importance in people's lives and a central political concern. Prior to analyzing firm-level employment during recessions, however, it is necessary to understand the context of the time period and subject.

[2] For further analysis of these divides in the business community, see Sutton et al. (1956), Schriftgiesser (1960, 1967), Monsen (1963), Seider (1974), Collins (1981), Harris (1982), Domhoff (2006), and Mizruchi (2013).

## WINNING THE PEACE: BUSINESS POLITICS IN THE POSTWAR PERIOD

In 1942, a small group of Commerce Department officials and business executives created the Committee for Economic Development to address increasing concerns over how the economy would transition back to civilian production after World War II. Many believed that a recession was inevitable, and the possibility of a relapse to Great Depression–style conditions loomed over public discourse (Collins 1981, pp. 99–100). In a 1947 speech to business leaders covered by the *New York Times*, Paul Hoffman, president of Studebaker Corporation and the CED's first chairman, elaborated on this fear: the "implications in the nation of a major depression were terrifying in that it would place the free economy in a hazardous position. . . . With millions out of work, there would surely be pressure on the government to guarantee jobs for all. Such a proposal sounds plausible, but only a totalitarian government controlling all enterprise could make good on it" (*New York Times* 1947, p. 39).

The CED channeled such concerns into support for countercyclical efforts by the federal government and business to moderate the economic cycle. Under the influence of Beardsley Ruml, a hybrid academic and business figure, the CED developed and promoted the concept of a stabilizing budget. The idea was to set taxes and spending at a fixed level conducive to high employment and deficit reduction. When the economy dipped, tax receipts would decline and outlays for programs like unemployment insurance would rise. When the economy expanded, the reverse would occur. Thus the federal budget would automatically act as a countercyclical force.

In addition to targeting public policy, the CED promoted countercyclical practices at the firm level. The group reasoned that within the shelter of state protections against extreme economic swings, the aggregate policies of individual firms could further moderate the economy. The CED argued that companies should stabilize labor, capital, marketing, and research and development expenses over the long term. Beyond improving general business conditions, this expansionary approach to recessions was supposed to benefit firms directly through greater sales, reduced capital costs, and stronger employee morale. Hoffman (1946) first outlined these ideas in an editorial in September 1946. These practices then became a recurrent theme in CED speeches and discussions until the group formalized them in its 1954 policy statement, *Defense against Recession: Policy for Greater Economic Stability* (CED 1954*a*).

In effect, the CED considered firms to be parallel to the federal government—having a budget that could be stabilized across the economic cycle. Businesses could not resist economic trends to the same extent as the government could, and they were no better at economic forecasting, but they

could operate with a longer-term perspective and react less impulsively to short-term information. In a research meeting leading up to the 1954 statement, Meyer Kestnbaum, president of Hart, Schaffner, and Marx and then CED chairman, described this as a matter of discipline: "I would like to draw a comparison with an army which has sustained a setback. If it has good generals and good soldiers, they withdraw to a new position and they get along all right, but if they are undisciplined they all throw their guns away and the thing is lost."[3] With the government preventing the worst economic outcomes and a basic faith in the American economy, businesses could do more to spread out and maintain their investments, not getting swept up in excessive growth and not panicking into undue cuts and freezes during temporary downturns. As the 1954 statement put it, "Expenditures of businesses should be based on a long-term view of their contribution to the purposes of the enterprise. In this long-term view the current state of business, whether booming or depressed, should be placed in the perspective of the rate of growth and degree of stability that may reasonably be expected. This long-term view will, we believe, tend to reduce cyclical fluctuations in business investment" (CED 1954*a*, p. 44). This was a dramatically new perspective on recessions and economic responsibility in the business community. Elliott V. Bell, chairman of McGraw-Hill Publishing, articulated this point in a research meeting for the antirecession statement:

> The great thing that is new and different is, you used to have a philosophy which said in effect, these ripe apples must fall if you allow the unbalance or whatever it is to work itself out; you know, you cut prices, you cut wages, you pay off debts, you put them through the wringer, then you get the economy on a sound basis from which it can go forward. Now we are abandoning that whole essentially banker minded viewpoint. We are completely abandoning the idea that you purge the economy when you have a situation of this sort and you put the weak sisters through the wringers and you teach labor a lesson and all the rest of it. We are saying now you don't do that, you try to ameliorate the disease, prevent it from running too far. (Joint Meeting, p. 20)

Another business association, NAM, was a champion of the old philosophy that Bell disparaged. The CED's belief in purposive joint action to counteract economic swings was anathema to the more conservative NAM. The two groups diverged despite the fact that they both recognized the same economic and political threats to American-style capitalism. In its two-volume 1946 economic treatise, *The American Individual Enterprise System* (*AIES*), NAM decried threats "that unless business provides an arbitrarily stated volume of employment, at arbitrarily stated wage rates and according to other standards deemed satisfactory to the public official, the govern-

[3] Minutes, Joint Meeting of the Research and Policy Committee and the Research Advisory Board, January 7, 1954, St. Regis Hotel, New York City, p. 22.

ment will do so. This means that private enterprise will be replaced by a state-planned, -controlled, -subsidized, and even -owned and -operated economy" (EPC 1946, p. 1021). NAM's reaction to the same stimuli that led the CED to embrace countercyclical policies was to reinforce its traditional opposition to government spending and restraints on market forces. Collins summarizes NAM thinking on deficits: "They [should] be treated as temporary aberrations—to be tolerated, but never manipulated for economic purposes. 'Sound budget policy,' the Association still warned, 'should never be sacrificed for the purpose of attempting control of either inflation or deflation through budget manipulation'" (Collins 1981, p. 171). This hostility to countercyclical action by government carried over to the group's recommendations for business practices.

As suggested by the title of *AIES*, NAM understood individual decision making to be the crucial principal of American capitalism. The group considered the flexible adjustment of supply and demand through the countless individual decisions of consumers and producers to be the sole source of economic prosperity. The supremacy of market forces restricted the scope of producer action, constraining businesses to the role of middleman. "An employer acts as an agent who assists in the procurement of a product by its purchasers; he is a middleman standing between wages and other production costs on the one hand, and the prices consumers will pay on the other" (EPC 1946, p. 108). The conclusions of this line of thinking were that business failures were a productive way to increase responsiveness to demand and to remove inefficient producers and that excessive market fluctuations resulted from restraints on the free adjustment of supply and demand.

NAM did promote private actions to alleviate economic cycles, given the threat these cycles posed to the American political and economic system, but these actions ideally worked in a way that preserved market direction of the economy. The crux of this thinking was that businesses should increase their alignment with economic conditions. In particular, NAM urged lowering prices to maintain volume during downturns (EPC 1946, pp. 868–70). NAM also acknowledged though that scaling back operations would serve the same purpose of adjusting to conditions (p. 420). The general emphasis on free-market operations translated into support for procyclical actions by government and business to work out economic imbalances rapidly. NAM argued that this would increase macroeconomic stability and also help firms by reducing their losses and strengthening their solvency.

It is important to note how these political and economic debates related to class conflict and labor relations. In general, the differences between the CED and NAM over macroeconomics mapped directly onto their positions regarding labor issues, except that they were not as far apart on labor issues (Sutton et al. 1956; Harris 1982). The CED had a more cooperative

stance toward unions, endorsing their right to exist and their useful role in the economy. However, the CED also shared some of NAM's suspicion toward union power, the closed shop, and strikes, while NAM eventually conceded a minimal acceptance of unions (Harris 1982).[4] Among the large businesses belonging to groups like the CED and NAM, there was simply not a lot of evidence of cooperation with unions (pp. 138–39). In contrast, the two groups' ideas concerning economic stability were nearly diametrically opposite.

Confronting the same political-economic challenges, the CED and NAM supported opposing positions in a debate over what government and business should do to moderate the economic cycle. The CED favored the application of Keynesian ideas to balance public and private expenditures over the cycle and control fluctuations. A CED staff person summarized the group's position this way: "Private enterprise can be made to work, but laissez-faire cannot."[5] In contrast, NAM continued to believe strongly in laissez-faire ideas and criticized economic interventions, such as those endorsed by the CED, as the road to socialism (EPC 1946; Bailey 1950; Monsen 1963; Collins 1981). Whereas the CED conceptualized businesses as having the collective ability to shape macroeconomic conditions purposively, NAM thought of these conditions as imposing on disaggregated businesses. NAM thinking is illustrated by its proclamation that "no individual businessman, as such, can actually determine for the country as a whole, policies on conditions of competition, on prices, on international trade, or even on wages and hours. These are all matters which are merely a part of, and have to fit into, the general economic and social environment of the country as reflected in its laws and established practices to which everyone must conform" (EPC 1946, p. 860). In contrast, the summary of the CED's antirecession policy statement began, "The decisions made by businesses, when added together, are crucial for making the economy stable or unstable. The individual businessman should do everything he can to help make the economy more stable, consistent with his responsibility for economic efficiency and expansion" (CED 1954*b*, p. 1).[6]

[4] In the early 1960s, the CED financed a group of academics to produce an independent report on labor politics but was so dissatisfied with the report's concessions to unions that it quickly authored its own report, *Union Powers and Union Functions: Toward a Better Balance*. This report swung the opposite way and defended the right of workers not to join a union, drawing unprecedented opposition to the CED from organized labor. In addition, the CED halted its practice of commissioning independent groups to write reports (Schriftgiesser 1967, pp. 163–69).

[5] Research and Policy Committee minutes, CED, March 21 and 22, 1943, p. 15.

[6] With such deep philosophical differences, the CED consciously sought to distance itself from the "reactionary NAM program," in the words of CED founder William Benton,

The four downturns from 1950 to 1970, in which these divergent ideas were tested, were fairly mild compared to the Great Depression and some later recessions. Eight years included a recessionary period: 1953–54, 1957–58, 1960–61, and 1969–70.[7] Each recession averaged 10 months, ranging from 8 to 11 months, compared to an average of 12 months for six later recessions. In the eight recessionary years from 1950 to 1970, the GDP grew at an average rate of 1.6% (in chained Consumer Price Index 2005 dollars), as compared to 0.5% in later recessionary years and 3.8% in postwar years without recessions.[8] Growth in employment averaged 0.5% in the early recessionary years, 0.2% in later recessionary years, and 2% in postwar years without recessions.[9]

Overall, the political economy of the business cycle from 1950 to 1970 supported the Keynesian perspective of the CED. Reductions in military spending after the Korean and Vietnam Wars and efforts by the Federal Reserve to control inflation helped to spark the downturns (Knoop 2010). Following Keynesian ideas, policy makers used expansionary monetary and fiscal policy to encourage economic recovery (Collins 1981; Knoop 2010). Automatic expenditure increases and tax revenue decreases at the federal level, strong state and local government spending, and steady consumer spending and exports also helped to maintain economic growth.[10] Mimicking the CED's thinking, executive officials also frequently cited the contributions of long-term planning by managers.[11]

However, there was tremendous debate and unease during the time period about whether the business cycle would veer into extreme conditions

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while NAM criticized the CED directly from time to time as well (Joint Research Meeting, February 20 and 21, 1944, Biltmore Hotel, New York City, p. 27). Such attacks included an editorial in NAM's newsletter entitled "Whom or What Does CED Represent?" in response to a CED publication on economic education that insufficiently supported free enterprise (Schriftgiesser 1967, p. 208).

[7] Official dates are available at http://www.nber.org/cycles.html.

[8] Calculated from Bureau of Economic Analysis data available at http://www.bea.gov/national/index.htm#gdp.

[9] Calculated from Bureau of Labor Statistics data available at http://www.bls.gov/cps/cpsaat01.htm.

[10] See the Economic Reports of the President from 1955, 1959, 1962, and 1971, available at http://fraser.stlouisfed.org/publication/?pid=45.

[11] An excerpt from President Eisenhower's 1955 Economic Report exemplifies this discourse: "A large and increasing number of business managements have become accustomed to thinking in ambitious, long-range terms. Expecting our economy to grow and prosper, they do not permit minor variations in sales to divert them from the objective of strengthening, or at least maintaining, their competitive position five or ten years later. Hence they boldly allot large sums to research, plan capital expenditures well beyond immediate needs, launch extensive investment projects, and even judge one another by these yardsticks no less than by profit-and-loss statements" (p. 23). A scanned copy of this report is available at http://fraser.stlouisfed.org/publication/?pid=45.

and about which policies would provide the greatest stability (Collins 1981). The politics of the 1957–58 recession typify these dynamics: the CED viewed the decline, which deepened in early 1958, with considerable alarm and called for an emergency 20% cut in income taxes across the rate structure and an acceleration of federal expenditures (*New York Times* 1958, p. 45); NAM was alarmed by such "hysterical demands for the discredited pump-priming measures" and instead urged long-term reductions in both government expenditures and the top income tax rates for individuals and corporations (Burke 1958, p. A2). Although the recessions of the time period seem tame in retrospect, the CED, NAM, and corporate managers had to act in the midst of considerable contention and uncertainty.

After 1970, the CED's countercyclical advocacy declined, in part because of competition from the Business Roundtable, which formed in 1972, as well as to increasing dissension within the group as national politics moved rightward (*Wall Street Journal* 1976, p. 38). This article focuses on the years from 1950 to 1970, when the CED addressed macroeconomic problems with considerable influence and promoted a set of solutions markedly different from those of NAM. The key questions I will investigate are whether and how ideas developed in the ethereal context of an association can actually influence the core business practices of affiliated companies and also what other forces shape corporate responses to recessions. In the next section, I develop a theoretical framework to answer these questions, drawing on sociological and economic research.

## A MESOLEVEL THEORY OF CORPORATE EMPLOYMENT PRACTICES IN HARD TIMES

Parallel to the popular debate on federal policies to escape recessions, much of the sociological literature on employment emphasizes macrolevel national systems. This approach views the U.S. labor market in comparison with other industrialized nations and conceptualizes it as the epitome of contractual labor relations (Whitman 1999; Fligstein 2001; Hall and Soskice 2001). But such macrolevel models are ill suited to understanding the variation in responses to recessions between firms within the same national context.

A more useful direction for this context is the disparate set of studies that connect firm-level economic pressures to corporate employment practices. Much of this literature starts from the managerial revolution first theorized by Berle and Means (1932), wherein managers gained control of corporations as ownership became more dispersed. The more optimistic variants of this argument hold that managers used their increasing power to advance societal goals such as job security (Whitman 1999). Writing in 1957, Carl Kaysen captured this perspective: "The whole labor force of the modern

corporation is, insofar as possible, turned into a corps of lifetime employees, with great emphasis on stability of employment" (1957, p. 312). However, from the 1970s onward, rising competition, diminishing profits, and greater ownership oversight conspired to place increasing constraints on managers. This forced them to improve financial performance by reducing labor costs (Prechel 1994; Useem 1996; Whitman 1999; Davis 2009).[12] Although this literature often suggests a singular employment system that changes over time, it also places explanatory weight on economic conditions that vary across firms. I take advantage of this implication to extend the literature by rigorously testing whether hypothesized relationships between a firm's employment levels and its financial and competitive positions hold.

Corporations are highly attuned to financial returns.[13] Profitable firms can afford to invest in their workforces, whereas firms with weak profits may turn to workforce reductions in order to shore up balance sheets (Budros 1997; Whitman 1999; Ahmadjian and Robinson 2001). Recessions create additional pressures to cut employees, putting downward pressure on financial performance. Recessions also create doubts about future demand, further stressing unprofitable firms. These increased stresses should intensify the link between profits and employment during downturns.

HYPOTHESIS 1.—*Financial returns will be positively associated with employment during recessions.*

Competitive pressures affect employment decisions as increasing competition pushes companies to abandon employment stability (Whitman 1999). For instance, Prechel (1994) shows that heightened competition contributed to the decision of a major steel firm to eliminate five layers of middle management. Competitive pressures are also partly responsible for business opposition to labor unions, a traditional advocate for stabilizing employment (Vogel 1989; Akard 1992; Linder 1999). Conversely, market power insulates companies from these pressures to reduce employment costs (Whitman 1999). Companies with large market shares are less likely to confront price competition, which pushes companies to economize or reduce production, both of which are associated with cutting workers. Since dominant firms are more insulated from market forces, their employment levels will be less affected by economic downturns. Strong market share should yield above-average employment during recessions, while insecure firms should reduce workforces.

[12] But see Goldstein (2012) for a demonstration of the expansionary effects of related economic trends on managerial employment.

[13] Although the literature often emphasizes a growing focus on profits in a later time period, financial returns were also important during the managerialist era of the 1950s and 1960s (Useem 1984, pp. 30–34; Mizruchi 2004, pp. 584–85).

HYPOTHESIS 2.—*Market share will be positively associated with employment during recessions.*

In addition to these economic factors, research on downsizing demonstrates the social inflection of corporate employment practices. A key sociological finding is that companies are sensitive to the employment decisions of others, as past downsizing in the population increases later downsizing, controlling for economic factors (Budros 1997; Ahmadjian and Robinson 2001). This may be due to copying esteemed others (Budros 1997) or to the normative protection provided by a crowd of downsizing companies (Ahmadjian and Robinson 2001). In addition to these mimetic and normative forces, industry convergence could also reflect competitive or coercive pressures (DiMaggio and Powell 1983; Mizruchi and Fein 1999; Lieberman and Asaba 2006). For instance, industry-specific market conditions may lead companies in the same industry to engage in the same behaviors—a competitive cause of isomorphism. This is especially important because cyclicality in demand and the ability of companies to scale back operational costs vary by industry (Petersen and Strongin 1996). I control for most of these dynamics by including revenues, profits, assets, and other financial variables in the models, and I also investigate models with industry dummy variables as a robustness test. Another way to disentangle mimetic isomorphism from the other mechanisms is to test their divergent implications for when convergent behavior across firms should occur. The other mechanisms should be equally effective during both growth years and downturns, whereas mimesis should be more important during recessions, as it is especially driven by uncertainty. These factors lead to the following two hypotheses.

HYPOTHESIS 3.—*A firm's employment levels will be positively associated with industry trends during all years.*

HYPOTHESIS 4.—*A firm's employment levels will be positively associated with industry trends during recessions only.*

Finally, business associations like the CED and NAM may shape corporate employment practices. There is a rich and varied literature that shows how corporate networks affect firms' political and charitable activities. Ties to business groups shape the campaign contributions, congressional testimony, policy positions, and political memberships of corporations, as well as the political beliefs of business leaders (Barton 1985; Martin 2000; Burris 2005; Dreiling and Darves 2011). Business associations can also normatively regulate corporate behavior and promote collective goods such as corporate social responsibility and philanthropy (Useem 1984; Galaskiewicz 1991; Campbell 2007). My contribution is to investigate the effects of business associations on the economic activities of companies.[14]

[14] For related projects, see Stark and Vedres (2012) for the political shaping of corporate interlock networks, Haydu (2002) for the transposition of good governance ideas to work-

There is reason to be skeptical about the ability of business associations, which rely on voluntary participation, to shape the core business practices of firms. Useem's (1984) careful analysis of the ability of corporate networks to affect firm-level decisions states this precondition: "First, the decisions have no immediate bearing on company profits. Whatever the policy adopted, no threat is posed to the firm's first law of financial welfare" (p. 117). Correspondingly, the literature on the effects of business associations in the United States predominantly discusses areas removed from central business operations such as politics and philanthropy.

However, business associations can affect core business practices because of the social construction of economic rationality: social forces guide the development of actors' understandings about the pathways to economic success (White 1981; Fligstein 1990; DiMaggio and Powell 1991; Lindberg, Campbell, and Hollingsworth 1991; Whitley 2004). Thus valuable research has shown that board interlocks can affect core corporate policies, directing the diffusion of antitakeover devices and the formation of joint ventures, as economic actors draw on strategic knowledge carried through social networks (Davis 1991; Gulati and Gargiulo 1999). From a more agentic perspective, business associations are vehicles for companies to develop mutual understandings of profitable strategies and to engage in collaborative learning (Galaskiewicz 1985; Kraatz 1998; Erickson and Jacoby 2003; Berk and Schneiberg 2005; Spillman 2012).

These constructionist arguments provide the seeds for a sociological theory of how business associations can influence the core business practices of companies during recessions by shaping their economic strategies. Through membership overlaps, companies affiliate with business associations; in turn, business associations develop and disseminate political and economic ideas. Business associations thus organize sets of companies into factions associated with particular views on politics and business. These "social devices" are especially important when managers face the uncertainties of recession and volatile demand (Haunschild 1994; Beckert 1996). Here, the success of economic strategies is dramatically contingent on uncertain macroeconomic conditions and ultimately on the actions of other companies (DiMaggio 2002; Whitley 2004). Disagreements as to whether the appropriate recessionary strategy is protective contraction, aggressive expansion, or some combination of the two make these broader actions less predictable (Gulati et al. 2010). Business associations support the pursuit of coordinated action. Companies joined through business associations can develop shared strategies for managing turbulent economic conditions, promoting alignment between firms and their environment. When multi-

force management, and Spillman (2012) for a comprehensive analysis of how business associations construct both economic interests and solidarity.

ple business associations advocate different approaches to managing economic cycles and companies split in their affiliations to these groups, the result can be separate sets of firms with different investment and employment profiles.[15] In the CED and NAM, participants developed two sets of beliefs on the direction of the economy and how best to respond to it. Mobilized participants brought these divergent ideas back to their companies. In this way, the harnessing of companies and business associations operated to construct two distinct corporate strategies for managing economic cycles.

The strength of the tie between firm and business association is dependent on the linking executive's level of participation in the association and his power in the company. Extensive participation in a business association increases socialization, and power in a company allows greater influence over its policies. Conversely, peripheral involvement in an association by a lower-level executive may reflect desires to network and pursue career advancement rather than engagement with the association (Useem 1984). Thus, companies with top managers (presidents, chairmen, or CEOs) who have strong participation in an association are the most likely to implement the association's recommendations. The CED's prescription for firms was to resist recessions, while NAM's was to hasten the firm's adjustment to market conditions.[16]

HYPOTHESIS 5.—*Having a top executive with strong participation in the CED will be positively associated with employment during recessions.*

HYPOTHESIS 6.—*Having a top executive with strong participation in NAM will be negatively associated with employment during recessions.*

In supplementary analyses, I also examine weaker affiliation ties.

## DATA, VARIABLES, AND METHODS

The sampling frame is the largest 500 manufacturers, 50 retailers, 50 transportation companies, and 50 utilities as listed by *Fortune*.[17] This frame of reference is appropriate for three reasons. First, there is considerable overlap between CED and NAM members and the *Fortune* lists. From 1950 to 1970, 58% of the business firms associated with the CED and 29% of

[15] By investigating the effects of two contending business clusters, the research design is more consistent with the current understanding of organizational fields as heterogeneous, riven by conflicting beliefs and organizing principles (Hoffman 1999; Scott et al. 2000; McAdam and Scott 2005).

[16] While holding opposite beliefs, both groups believed that their ideas would moderate the economic cycle. Note also that both groups articulated these policies at the firm level. The CED did so in various speeches and in its 1954 antirecession statement; NAM did so in its 1946 economic treatise.

[17] I exclude the lists of banks and life insurance firms because records for these firms during the time period are either missing or incomplete in Standard & Poor's Compustat.

the companies tied to NAM were *Fortune* firms at some point. As NAM had a larger number of affiliated companies, both associations were tied to nearly equal numbers of *Fortune* firms: 236 for the CED and 239 for NAM.[18] Second, large publicly traded firms follow each other's actions as a reference group and are under similar pressures to maximize profits (Fligstein 1985).[19] Third, the *Fortune* firms account for a considerable percentage of national employment, enhancing the significance of the analysis. For instance, the Fortune 750, which are the firms in this study plus the largest 50 banks and 50 life insurers, provided 33.9% of private nonfarm employment in 1974. They were even more dominant within the sectors they represented, accounting for 55.3% of employment therein (Leonard 1976). Given these proportions, it is not surprising that a near-perfect correlation (.99) exists between the total employment for *Fortune* firms in the sample and total employment nationwide from 1950 to 1970.[20]

Compustat provides the core of the data set, including all the data on firm employment and finances. Compustat is the only digitized source for firm-level data for my time period and is widely used in quantitative research on corporations. I supplement this with data on mergers and acquisitions, political affiliation, top executives, and investment abroad that I collected from Moody's manuals and the annual reports of corporations, the CED, and NAM.

The unit of analysis is the firm-year. The *Fortune* lists for manufacturers begin in 1954, ranking firms for their performance in 1953, and the lists for the three other types of firms all begin in 1955, based on 1954 performance. I backdate each of the first lists to 1950 in order to match my time frame. Firm-years are included when the firm was on the *Fortune* lists for the corresponding year, which results in unbalanced panel data. There are sufficient data for 586 firms to enter into the full model, with a total of 7,083 firm-years.

The dependent variable is the number of employees in the current year. All models include the one-year lagged number of employees to control for the effect of previous employment levels. Data for this variable and for all other financial variables are from Compustat.

To index recession years, I primarily use a binary variable, coded 1 for 1953–54, 1957–58, 1960–61, and 1969–70. These are the years that include official recessions as defined by the National Bureau of Economic Research

[18] Because of missing data, a smaller number of firms with ties to the CED and NAM enter into subsequent analyses. I report the exact numbers in the results section.

[19] *Fortune* lists include a small number of privately held firms and cooperatives that are excluded from the analysis because of inadequate financial data.

[20] National employment data are from the Bureau of Economic Analysis, U.S. Department of Commerce.

(NBER).[21] While simplistic, a binary indicator of recessionary conditions corresponds well to my theory of how uncertainty drives the social processing of recessions. At the time of a recession, decision makers do not know whether the economy will improve or worsen or how best to respond, and this double uncertainty induces managers to turn to social resources to find and develop successful strategies. A binary indicator better reflects these informational conditions than more precise quantitative economic series. While there are surprisingly few sociological studies that model the effects of economic cycles, binary measures of downturns (Griffin, Devine, and Wallace 1982; Kasarda and Irwin 1991; Wenger and Kalleberg 2006) appear to be about as common as quantitative indicators (Raffalovich, Leicht, and Wallace 1992; McCammon 1994; Western and Healy 1999).[22] I also utilize the rate of GDP growth to check the robustness of my results. The expected employment effects of the binary and continuous measures of macroeconomic conditions are negative and positive, respectively.

Three variables measure the impact of financial pressures: profits, closing stock value, and return on equity (ROE) in the prior year.[23] When profits, stock value, and ROE are low, financial pressures should push firms to lay off workers. I expect recessions to intensify these direct relationships. Thus interaction terms between each variable and the dummy indicator for recession years should have positive coefficients.

Using the full set of firms in the Compustat data set, I calculate market share as a company's percentage of revenues at the two-digit SIC industry level. The expectation is that recessions will dramatize the stabilizing effects of market power on employment, so the interaction between market share and recession years should be positive. I also considered using a measure of industry concentration instead of market share. Results for this variable are in a similar direction but are weaker. Market share is also a more specific indicator of a firm's competitive position and market power.

The industry employment trend is the average growth rate in employment in an industry (two-digit SIC), excluding the focal firm. I use percentage scores to standardize for different employment levels across firms. I also calculate this variable with the full set of firms in the Compustat data set. According to hypothesis 3, both the main effect of this industry employ-

[21] NBER defines recessions as "a period between a peak and a trough. . . . During a recession, a significant decline in economic activity spreads across the economy and can last from a few months to more than a year" (NBER 2010).

[22] A pattern in the measurement split is that the studies with binary measures seek to explain state expenditures or aggregate employment phenomena, while the studies with quantitative measures seek to understand various dimensions of labor power.

[23] ROE is net income divided by equity. I standardize this variable by subtracting the Standard Industrial Classification (SIC) two-digit industry average ROE, calculated without the focal firm. I also considered return on assets, but it was not significant.

ment trend and its interaction with recessions should be positive, as companies follow industry trends during all phases of the economic cycle. Hypothesis 4 argues instead that only the interaction term should be positive, as it is uncertainty that especially leads companies to mimic their peers.

Data for CED and NAM participation come from the organizations' annual reports. For each group, I construct binary indicators of strong ties between association and firm.[24] A strong tie is when a president, chairman, or CEO held a leadership position in the association. The crucial activity at the CED was research, which engaged the members of the research and policy committee, plus the chairman and vice chairmen, who had standing appointments on the research committee, so I define these roles as leadership positions in the CED. For NAM, which did not have the research focus of the CED, I define leadership positions as chairman, national vice president, divisional vice president, or regional vice president. I interact the affiliation variables with the dummy indicator for recession years. The expectations are that the CED interaction term will be positive, while the NAM interaction term will be negative.

Tables 1 and A1 provide more detail on the political affiliation variables. In table 1, I chart the structure of affiliation between firms and business associations. There are similar patterns for the CED and NAM. Both groups have a large number of firms and firm-years with at least a membership connection to the association, and these numbers decrease as the strength of the connection increases, up to having a top executive in a leadership position in the association. At the membership level, a little less than 25% of the firms and 9.5%–15% of the firm-years are tied to each group. At the strongest level, these figures drop to about 5% of firms and 1%–2% of firm-years. Together, 10%–38% of firms and 3%–21% of firm-years are affiliated with either the CED or NAM, depending on the strength of association.[25] Owing to theoretical issues discussed above, my main analysis focuses on the strongest type of association, but I also consider weaker ties in additional analyses.

There is also a sizable amount of movement in and out of affiliation, which allows for fixed-effects estimation.[26] For the CED, 62% of firms with at least a membership connection have one or more changes in affiliation. This number rises to 79% of firms with a top executive leader in the CED. For NAM, the percentage of firms experiencing changes in affiliation ranges

[24] Firms that never have a strong link to either group are coded 0 for both variables in every firm-year.

[25] The union of CED and NAM affiliations is a little less than the sum of the figures for the two groups because of a small number of overlaps.

[26] The fixed-effects models I use analyze variation within firms over time. Therefore, the models will exclude any variables that do not change over time within firms.

TABLE 1
STRUCTURE OF AFFILIATIONS BETWEEN COMPANIES AND BUSINESS ASSOCIATIONS

| | CED | | | | NAM | | | |
|---|---|---|---|---|---|---|---|---|
| | Any Membership | Top Executive Membership | Any Leadership | Top Executive Leadership | Any Membership | Top Executive Membership | Any Leadership | Top Executive Leadership |
| Firms | 141 | 125 | 43 | 34 | 137 | 102 | 41 | 27 |
| Firm-years | 1,073 | 865 | 253 | 167 | 692 | 430 | 151 | 84 |
| Mean | 7.61 | 6.92 | 5.88 | 4.91 | 5.05 | 4.22 | 3.68 | 3.11 |
| SD | 5.53 | 5.03 | 4.98 | 4.38 | 3.98 | 3.31 | 2.33 | 1.83 |
| Number of changes in affiliation: | | | | | | | | |
| 0 | 53 | 38 | 10 | 7 | 27 | 21 | 5 | 5 |
| 1 | 57 | 50 | 27 | 20 | 50 | 51 | 20 | 13 |
| 2 | 21 | 17 | 3 | 1 | 16 | 4 | 6 | 3 |
| 3 | 7 | 13 | 3 | 4 | 30 | 18 | 8 | 5 |
| 4+ | 3 | 7 | 0 | 2 | 14 | 8 | 2 | 1 |

from 79% to 88%. The greater level of movement for NAM reflects the stricter use of rotating positions. CED positions were also fixed terms, but reelection was more common than in NAM, especially for simple membership. In both groups, executive turnover is another important source of instability in affiliation, and this is associated especially with mandatory retirement and health issues.

Table A1 compares firm-years with strong ties to the CED and NAM in the data set, using *t*-tests with unequal variances. Overall, CED firm-years tend to be larger firms in somewhat more diverse industries. The fixed-effects regression models will indicate what impact political affiliation has on employment within firms over time and net of these other variables.

Building off models of the related phenomenon of downsizing in Budros (1997, 1999) and Ahmadjian and Robinson (2001), I also include a number of controls that are likely to affect employment. To capture the financial health and size of firms, I include the previous year's revenues, cash, long-term debt, assets, and productivity, which is net income divided by number of employees. I log all these variables except for productivity to correct for skew. Revenues index both the size of the firm and its cash flow and should be positively associated with employment. When cash is plentiful, firms can more readily make and maintain investments, increasing employment, while greater debt imposes financing demands that push firms to cut payroll.[27] Assets and productivity are important features of business operations. Greater levels of these two variables can indicate the substitution of capital for labor and so should be associated with lower employment.

Conducting a merger or acquisition expands the size of a firm, increasing employment. I collected data for this variable by coding the merger and acquisition history of firms from Moody's reference guides (*Moody's Industrial Manual, Moody's Transportation Manual*, and *Moody's Public Utility Manual*).[28] Given the lack of consistent data on the value of acquisitions, I use a binary measure of whether any merger or acquisition activity occurred in a given year.

Table 2 displays descriptive statistics and correlations for all the main variables. There is significant correlation between several of the control variables. Since the focus is not on these variables, however, I retain all of the controls to better clarify the effects of the hypothesized variables and exercise caution in interpreting their coefficients. Other correlations are generally small. Notably, strong ties to NAM and to the CED are almost orthogonal ($r = .002$), as there are very few overlaps. The variance inflation

[27] Financing pressures are the need to generate revenues to meet loan payments each term (Budros 1997, p. 232).

[28] Thanks to Don Palmer for suggesting this method to overcome the lack of other data sources for the time period of interest.

TABLE 2

MEANS, SDs, AND INTERCORRELATIONS

| Variable | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mean | 27.50 | 37.77 | 50.09 | .01 | .06 | .08 | .02 | .01 | .40 | 5.71 | 3.12 | 2.95 | 5.37 | 1.45 | .36 |
| SD | 56.21 | 117.26 | 62.20 | .07 | .10 | .43 | .15 | .11 | .49 | 1.06 | 1.19 | 1.85 | 1.17 | 1.72 | .48 |
| 1. Employees | ... | | | | | | | | | | | | | | |
| 2. Profits $(t-1)$ | .80 | | | | | | | | | | | | | | |
| 3. Stock price $(t-1)$ | .10 | .13 | | | | | | | | | | | | | |
| 4. ROE $(t-1)$ | −.02 | .01 | −.06 | | | | | | | | | | | | |
| 5. Market share | .38 | .30 | .10 | −.01 | | | | | | | | | | | |
| 6. Industry trend | .00 | .00 | .00 | .01 | .01 | | | | | | | | | | |
| 7. CED strong tie | .12 | .16 | .03 | −.03 | .09 | −.01 | | | | | | | | | |
| 8. NAM strong tie | .00 | −.01 | −.01 | .00 | −.02 | .00 | .00 | | | | | | | | |
| 9. Recession year | .01 | .01 | −.02 | .01 | .02 | −.08 | −.01 | .00 | | | | | | | |
| 10. Log revenues $(t-1)$ | .63 | .54 | .11 | −.03 | .30 | −.01 | .11 | .02 | .03 | | | | | | |
| 11. Log cash $(t-1)$ | .56 | .55 | .22 | −.01 | .34 | .01 | .10 | .01 | .02 | .74 | | | | | |
| 12. Log debt $(t-1)$ | .35 | .32 | .06 | .01 | .20 | .03 | .08 | .00 | .05 | .56 | .39 | | | | |
| 13. Log assets $(t-1)$ | .60 | .57 | .17 | −.01 | .32 | .02 | .13 | .03 | .03 | .89 | .82 | .67 | | | |
| 14. Productivity $(t-1)$ | −.01 | .27 | .21 | .08 | .01 | −.01 | .03 | .00 | .00 | .14 | .32 | .10 | .31 | | |
| 15. Merger and acquisition activity | −.03 | −.04 | −.04 | .03 | −.06 | .01 | −.01 | .00 | .01 | .07 | −.03 | .13 | .08 | .00 | ... |

NOTE.—$N = 7{,}083$.

factors for the hypothesized variables are all below 2.5 and so do not indicate problems with multicollinearity.

Having a continuous dependent variable and cross-sectional time-series data, my modeling strategy is to use fixed-effects panel regression. This design corrects for the problem of unobserved heterogeneity from multiple observations within panels across years and within years across panels and is indicated by highly significant Hausman tests. Since the models include the lagged dependent variable, I also estimated them with Arellano-Bond's generalized method of moments estimator, which uses instruments to eliminate correlation between the lagged dependent variable and the error term. Results for the hypothesized variables were generally stronger. Therefore, I opted for the simpler fixed-effects estimator, which produced more conservative results.

The fixed-effects model provides a strong test of the hypotheses as it considers only variation within firms. This is especially important for hypotheses 5 and 6, which concern business associations. Using differences from the mean, the model estimates whether a firm's employment is different between recessions when the firm is affiliated with a business association and recessions when it is not. The model also mitigates concerns that there is some unobserved quality to the firms that participate in the CED and NAM that accounts for any observed differences in employment. In particular, the design controls for any stable political preferences of firms that may lead them to affiliate with the CED or NAM in the first place. To extend this test of selection into associations, a supplementary analysis will also control for the top executive at firms to consider the possibility that corporate leaders explain the choice to affiliate and also account for employment outcomes.

The fixed-effects design also excludes static industry effects. There is no available indicator of industry cyclicality that covers the full range of industries in the data set, but the numerous financial variables in the model should control for much of this phenomenon. As an additional check, I also computed the models with random-effects and two-digit SIC industry dummy variables. Results for the key independent variables did not substantively differ.

## RESULTS

### Employment during Recessions, 1950–70

In table 3, I present four fixed-effects panel models to understand firm-level processing of recessions from 1950 to 1970. The first model contains only the controls. Consistent with expectations, conducting a merger or acquisition and greater cash are associated with higher employment, while

TABLE 3
FIXED-EFFECTS PANEL REGRESSION MODELS PREDICTING FIRM-LEVEL EMPLOYMENT, 1950–70

| | Model 1 | Model 2 | Model 3 | Model 4[a] |
|---|---|---|---|---|
| CED strong tie | | .73 | −.94 | 2.83** |
| | | (.60) | (.70) | (1.07) |
| CED × recession | | | 3.83*** | −33.44** |
| | | | (.90) | (12.95) |
| NAM strong tie | | −1.21$^{+}$ | −.01 | −3.63* |
| | | (.69) | (.84) | (1.45) |
| NAM × recession | | | −2.77* | 35.57$^{+}$ |
| | | | (1.27) | (18.88) |
| Industry trend | | .20 | .08 | .87 |
| | | (.17) | (.17) | (1.11) |
| Industry trend × recession | | | 7.85*** | −9.52 |
| | | | (1.43) | (14.90) |
| Profits ($t-1$) | | .02*** | .02*** | −.02*** |
| | | (.00) | (.00) | (.00) |
| Profits × recession | | | −.01*** | .46*** |
| | | | (.00) | (.03) |
| Stock price ($t-1$) | | .01*** | .01*** | .01$^{+}$ |
| | | (.00) | (.00) | (.00) |
| Stock price × recession | | | −.00 | .03 |
| | | | (.00) | (.04) |
| ROE ($t-1$) | | 1.19 | 2.37$^{+}$ | −7.41*** |
| | | (1.07) | (1.27) | (2.23) |
| ROE × recession | | | −2.79 | 132.46*** |
| | | | (2.00) | (30.73) |
| Market share | | 7.69*** | 8.37*** | 5.56* |
| | | (1.95) | (2.03) | (2.21) |
| Market share × recession | | | −2.58$^{+}$ | 15.40 |
| | | | (1.32) | (17.92) |
| Employees ($t-1$) | .97*** | .93*** | .94*** | .94*** |
| | (.01) | (.01) | (.01) | (.01) |
| Recession year | −1.23*** | −1.18*** | −.95*** | 6.99* |
| | (.13) | (.13) | (.19) | (3.23) |
| Log revenues ($t-1$) | .056 | .08 | −.02 | .11 |
| | (.48) | (.48) | (.48) | (.46) |
| Log cash ($t-1$) | .47** | .32$^{+}$ | .29$^{+}$ | .36* |
| | (.17) | (.17) | (.17) | (.16) |
| Log debt ($t-1$) | −.28** | −.27** | −.27** | −.30*** |
| | (.09) | (.09) | (.09) | (.09) |
| Log assets ($t-1$) | .54 | .76 | .74 | .60 |
| | (.50) | (.50) | (.50) | (.48) |
| Productivity ($t-1$) | .25** | −.12 | −.08 | −.08 |
| | (.09) | (.10) | (.1) | (.10) |
| Merger and acquisition activity | .97*** | 1.01*** | .96*** | 1.00*** |
| | (.16) | (.16) | (.16) | (.15) |
| Constant | −2.18* | −3.01*** | −2.65** | −3.30*** |
| | (.93) | (.94) | (.94) | (.93) |
| $F$ | 4,462.20 | 2,426.84 | 1,689.94 | 1,796.78 |
| $df$ | 8, 6,489 | 15, 6,482 | 22, 6,475 | 22, 6,475 |

NOTE.—$N = 7{,}083$. Numbers in parentheses are SEs.

[a] GDP growth rate replaces the binary recession indicator in this model. Thus direct terms indicate effects at zero growth, while interaction terms indicate effects as the growth rate increases.

$^{+}$ $P \leq .10$.

* $P \leq .05$.

** $P \leq .01$.

*** $P \leq .001$.

recession years and greater debt yield reduced employment. Surprisingly, revenues and assets are not significant factors in this model, and greater productivity increases employment. This suggests the importance of investigating how firms interpret economic conditions.

Model 2 introduces the hypothesized variables without interaction terms. The expected relationships between financial and competitive pressures and employment all hold. Profits, stock value, and ROE are all positively associated with employment, although ROE is insignificant. Controlling for profits, productivity turns negative and insignificant. This result is more consistent with my expectation that profit per employee indexes mechanization. Market share also strongly increases employment. The industry employment trend and strong affiliation with the CED are not significant for the entire time period, while strong affiliation with NAM is negative and marginally significant ($P = .077$). Overall, across all years from 1950 to 1970, better capitalization, more profits, and stronger market positions corresponded with larger workforces.

Model 3 introduces the interaction terms with recession years to test the hypotheses. Parceling out the effects of financial and competitive pressures across the economic cycle yields unexpected results. These factors still improve employment during growth years, but contrary to hypotheses 1 and 2, profits and market share are inversely associated with employment during recessions. These unexpected findings signify the importance of empirically investigating how firms respond to downturns, as they show that firms may work against market signals during recessions. The negative effect of profits during recessions suggests that companies may bet against their past fortunes when the economy sours or that profitable firms cut costs more aggressively during downturns. The negative interaction term for market share ($P = .051$) suggests that during times of stress, companies may use market power to reduce production and stabilize prices rather than reduce prices and stabilize production. This interpretation is consistent with the economics literature on oligopoly, which finds that market power reduces price flexibility (Martin 1993, p. 445).

While the industry trend in employment is still insignificant during growth years, it is strongly significant and positive during recessions. Together with the null results for the noninteracted effect, these findings support hypothesis 4 and not hypothesis 3. They suggest that the employment decisions of peers are more influential during turbulent times because the uncertainty of recessions encourages mimicry.

Another possibility is that industry cyclicality drives the results, as firms in the same industry experience the same industry-specific cyclical pressures. Revenues, assets, profits, and the other financial variables in the model should control for much of this dynamic, however. As a further test, I recomputed model 3 as a random-effects model with two-digit industry dummy

variables and generated equivalent results. I then added three-way interactions among industry trends, recession years, and the two-digit industry groups to assess the contribution of particular industries to the industry trend effect. There is little systematic variation in results across industries, with only communications having a significantly stronger effect, and the main findings persist after removing this industry. Another problem with the industry-cyclicality explanation is that it does not fit the null effect of industry trends in growth years. This account does not explain why an industry would move together during downturns but not during expansions. Instead, the pattern fits the mimesis explanation that the greater uncertainty of downturns enhances social contagion as companies pay closer attention to their peers to help navigate difficult conditions.

The interaction terms also clarify the weak effects of political affiliation observed in model 2. In model 3, strong ties to neither the CED nor NAM affect employment in growth years. During recessions, though, there is a strong positive effect for CED affiliation and a strong negative effect for NAM affiliation, supporting hypotheses 5 and 6.[29] Controlling for an array of financial variables, having a top executive in a leadership position in the CED *increases* employment during recessions by 2,889 employees, while the equivalent tie to NAM *decreases* employment by 2,784 workers. For comparison, a *Washington Post* editorial written in the midst of sluggish recovery from the Great Recession of the early 21st century called for the Fortune 500 companies to jump-start the economy by each hiring 1,000 workers (Useem 2011). In the much smaller economy of the 1950s and 1960s, clashing political networks generated an average swing of 5,673 employees for cross-aligned *Fortune* firms, more than five times Useem's prescription.[30] With the sample of CED and NAM firm-years here, the aggregate predicted effects across the four recessions are 173,340 additional workers at CED firms, 86,304 fewer at NAM firms, and a combined difference of 259,644 employees. These are significant totals, and they would expand if extrapo-

[29] In a supplementary analysis using separate variables for each recession year, the CED has its biggest impact in 1953 and 1957, with nearly significant effects in 1969 and 1970, and NAM has its biggest impact in 1957 and 1960. However, the results persist with the removal of any one of these years. Also, both affiliation effects remain equivalently significant in models with dummy variables for all years. In addition, using random-effects models, I interacted the affiliation effects with two-digit industry groups. There were no significant industries for NAM and two significant industries for the CED—fabricated metal products and transportation equipment. Effects persisted after removing these two industries.

[30] Moving from zero to one on the CED interaction term changes employment by $(3.826 - 0.937 - 0.95) \times 1,000 = 1,939$; moving from zero to one on the NAM interaction term yields $(-2.771 - 0.013 - 0.95) \times 1,000 = -3,734$. The spread between these two figures is $1,939 + 3,734 = 5,673$. Note that there is a multiplication term because the dependent variable is measured in the thousands.

lated to aligned firms outside the sample and to the lesser effects of the two associations on more distantly connected firms.

Model 4 replaces the binary measure of recessions with the continuous measure of the GDP growth rate. The results are more complicated but largely consistent. With zero growth, the direct effects of affiliation with the CED and NAM on employment are positive and negative, respectively. As growth increases, CED affiliation lowers employment while NAM affiliation increases it. Conversely, as GDP growth contracts, ties to the CED boost employment while ties to NAM shrink employment. Thus, strong affiliation with the CED leads companies to manage their workforces countercyclically while strong affiliation with NAM leads to procyclical workforce management. Similar results obtain for financial pressures. Profits and ROE are inversely related to employment with no growth and switch to a positive relationship with growth. Since there were no years with negative GDP growth, this provides further support for the countercyclical effects of financial pressures during economic downturns.[31] The direct effects of stock price and market share, however, are inconsistent with the previous models but consistent with hypotheses 1 and 2, as they indicate a positive effect of these two variables on employment at zero GDP growth. Recessionary effects for these two variables were also weaker in the prior model. Finally, while the coefficients of the industry trend variables are in the expected direction, they are insignificant.

To summarize, during recessions firms tend to move conversely against profits and market share, follow industry trends, and act in concert with business associations. The contrast between the significant results for political affiliation and industry trends in downturns versus null results in growth years suggests that firms engage with external resources more closely during times of greater economic uncertainty. To investigate the robustness of the political affiliation effects, I next consider other measurements of affiliation, as well as the potentially important omitted variables of top executive preferences and employment abroad.

## Lower Levels of Affiliation

More can be learned about the nature of affiliation effects by exploring the results of different strengths of affiliation. I consider any membership, top executive membership, and any leadership in an association. Table 4 displays the extracted results of substituting each type of affiliation into model 3 from table 3. The coefficients are generally in the same direction

[31] Annual GDP growth is always positive in this data set because the recessions were mild and the expansionary months in each year outweighed the recessionary months.

TABLE 4
COMPARISON OF AFFILIATION TYPES, EXCERPTED RESULTS

| | Any Membership | Top Executive Membership | Any Leadership |
|---|---|---|---|
| Recession . . . . . | −.90*** | −1.01*** | −.93*** |
| | (.20) | (.20) | (.19) |
| CED . . . . . | −.07 | −.12 | −.01 |
| | (.32) | (.33) | (.62) |
| CED × recession . . . . | .05 | .71+ | 1.12 |
| | (.39) | (.41) | (.76) |
| NAM . . . . . | −.23 | −.31 | −.23 |
| | (.33) | (.41) | (.63) |
| NAM × recession . . . | −.80+ | −.08 | −2.64** |
| | (.46) | (.57) | (.93) |

NOTE.—$N$ = 7,083. Numbers in parentheses are SEs.
+ $P \leq .10$.
* $P \leq .05$.
** $P \leq .01$.
*** $P \leq .001$.

but are weaker, suggesting partial adoption of ideas at lower levels of affiliation. For the CED, top executive membership is marginally significant and positive during recessions. For NAM, membership is marginally significant and negative during recessions, and leadership is strongly negative during downturns. This pattern may reflect the different types of ideas associated with each group: the CED advanced Keynesian ideas that were novel for the business community (Schriftgiesser 1960; Monsen 1963; Galbraith 1965; Collins 1981), while NAM championed the classical business creed (Cleveland 1948; Gable 1959; Burch 1973). The unorthodox nature of CED ideas may have required participation by a top-level executive to gain traction, whereas the traditional ideas of NAM may have more readily spread through lower corporate channels.

## Executive Preferences

Executive preferences are an important rival explanation for the observed effects of political affiliation. Although the fixed-effects design controls for the stable characteristics of the particular firms that affiliated with the CED and NAM, it could be argued that top executives explain both affiliation and employment outcomes. In this argument, the preexisting political preferences of the firm's leader cause the firm to affiliate with a like-minded business association as well as to enact compatible employment practices. Employment practices vary by executive, not affiliation. If the results persist after controlling for the top executive, the argument for affiliation as a treatment effect rather than a selection effect will be strengthened.

For all the firms in my sample that were ever affiliated with either the CED or NAM, I recorded the CEO (or president if no CEO existed) for each year. Data collection for this subset of firms was more feasible, while it still included all of the records of theoretical interest. This step yielded 590 distinct executives. I then entered dummy variables for the executives into model 3 from table 3. Table 5 displays the extracted results.

Controlling for the stable political preferences of the top executive, the expected affiliation effects are still significant ($P \leq .05$). While their statistical significance weakens—which is not surprising given the restriction to variation within chief executives and the reduction in cases—the magnitude of their coefficients actually increases.[32] The difference between strong affiliation with the CED and with NAM climbs to almost 7,000 workers.

If top executives do not fully explain selection into these business associations, what else might? I regressed each affiliation variable on all the variables from the second model in table 3. These two models account for less than 4% of the variation in either case. Instead of these economic factors, a logical alternative is that affiliation primarily reflects patterns of friendship, acquaintanceship, and geography, parallel to corporate interlock networks (Useem 1984).

## Business Geography

Another important rival explanation is that shifts in employment from the United States to lower-cost countries might account for the observed effects of political affiliation. Firms aligned with the CED may have more international operations and so are better able to maintain employment during recessions by employing a greater proportion of their workforce outside the United States at a lower cost, while NAM firms might be more domestic. Geographic segment data for firms, which break out employment by country or region, are the most appropriate data for answering this question but are not available until 1976. Instead, I triangulate three data sources: macroeconomic data on direct investment abroad (DIA) by

[32] Out of the 590 executives in the supplementary analysis, 395 experience multiple recessionary years and 183 experience multiple distinct recessions. The results indicate that within these executive tenures, political affiliations still shape employment outcomes. For this to be the case, companies under the direction of particular CEOs have to behave differently during recessions when they are affiliated than they do during recessions when they are not affiliated. This is a rigorous test that the theory passes. In a separate model, I also explored entering a dummy variable for executive-change events. The executive-change event variable is highly insignificant ($P \leq .915$), the CED interaction term remains highly significant ($P \leq .001$), and the NAM interaction term falls below statistical significance to $P \leq .204$, $t = -1.27$, but remains in the expected direction and approaches significance.

TABLE 5
EFFECTS OF AFFILIATION CONTROLLING FOR TOP EXECUTIVES, EXCERPTED RESULTS

| | Coefficient |
|---|---|
| Recession . . . . . | −.68 |
| | (.48) |
| CED . . . . . | −.53 |
| | (1.13) |
| CED × recession . . . | 3.20* |
| | (1.26) |
| NAM . . . . . | −.56 |
| | (1.25) |
| NAM × recession . . . | −3.65* |
| | (1.82) |

NOTE.—$N$ = 3,467. Numbers in parentheses are SEs.
* $P \leq .05$.

U.S. companies from Bureau of Labor Statistics reports (Whichard 1981), firm-level data on workforce expenditures from Compustat, and firm-level counts of foreign subsidiaries and foreign manufacturing plants coded from Moody's 1971 *Industrial Manual.* Findings that would be consistent with the alternative account are that DIA expanded more rapidly in less developed countries than in developed countries, indicating a search for low-cost labor; workforce expenditure per employee was inversely associated with CED affiliation and directly associated with NAM affiliation; and foreign subsidiaries and plants were directly associated with CED affiliation and inversely associated with NAM affiliation.

On the first test, DIA increases 540% over the time period, so business geography is not a static factor that the fixed-effects models would remove. However, the increases are much greater for developed countries (810%), especially Europe, than for developing countries (235%). The result of these two trends is that the composition of DIA shifts from 48% in developed countries and 49% in developing countries in 1950 to 69% in developed countries and 25% in developing countries in 1970.[33] While investment and associated employment by U.S. firms abroad increased from 1950 to 1970, this trend is better conceptualized as seeking new markets in a rebuilding postwar world than as seeking cheap labor.

There are similarly null results for workforce expenditures and foreign operations. Staff expenses per employee, foreign subsidiaries, and foreign manufacturing plants all have weak correlations with CED affiliation and NAM affiliation ($r < .10$). The result is that the effects of political affiliation on employment hold up when the rival variables are added to regres-

[33] These figures do not sum to 100 because there is a remainder, which BLS classifies as "unallocated."

sion models. Also, when foreign subsidiaries and foreign manufacturing plants are entered together, subsidiaries have a positive and significant effect on employment but manufacturing plants have no effect. This result suggests that the employment gains of foreign operations are due to selling abroad rather than producing overseas during the time period. Taken together, the geographic analyses support the prevailing view that foreign markets buoyed American corporations and employment during the time period (Whitman 1999), but also that engagement with these markets does not discriminate between the CED and NAM. Thus the geography of business operations fails to explain the observed employment effects of political affiliations.

## DISCUSSION

Facing the haunting memory of the Great Depression, the challenge of communism, and vigorous state and labor pressures, two groups of corporate executives mobilized along divergent paths to reshape the American political and economic system. The CED aimed to promote countercyclical practices and stimulate joint action by firms to resist recessions. In contrast, NAM believed that economic fluctuations were market correctives whose progress should be hastened and that any attempt to alter them would be inimical to freedom and economically counterproductive. Consistent with the hypotheses, the results indicate that business leaders joined together in the CED to defend against recession and in NAM to adjust to recession. Controlling for the stable characteristics of firms and top executives as well as an array of financial variables, affiliation with these business associations significantly influenced the employment decisions of major corporations during recessions from 1950 to 1970.

This finding broadens research on corporate networks by showing that business associations can affect core business practices during recessions in a heterogeneous pattern. Recessions breed uncertainty about the future direction of the economy and the appropriate investment strategy, both of which are dependent on the actions of other companies. Firms can manage this uncertainty by imitating peers but also by endeavoring to collectively construct their environment through business associations. Firms cluster around associations, where they develop shared understandings about the direction of the economy and how best to respond. This coordinated approach makes sense because the decisions of other companies cumulatively shape the economy. However, the existence of multiple conflicting business associations yields contradictory investment patterns. These findings on the social construction of the economic strategies of corporations contribute to the broader literature on the political and institutional structuring of the economy (Roy 1997; Fligstein 2001).

The connection between economic turbulence and social influence is also evident in the significant effects of peer behavior during recessions but not during growth years. Companies followed each other more closely in their employment decisions in periods of economic turmoil. This finding supports the interpretation that peer effects on employment practices are due to mimetic forces rather than other sources of isomorphism, while still not allowing a definitive verdict. The finding also builds on the downsizing literature by showing that the actions of peers also matter for annual employment levels and that macroeconomic conditions can moderate these effects.

The divergent employment effects of affiliation with the CED and NAM, together with the evidence of peer effects, demonstrate the social processing of recessions. Social and political resources are crucial to how firms interpret and react to macroeconomic instability. This social process in turn affects macroeconomic trajectories due to the cumulative effects of corporate employment decisions. Further research should study social and political forces in more recent recessions as well as attempt to identify the recursive effects on firms of their cumulative investment decisions. One might not expect this case to generalize to more severe recessions. Crucially, though, managers do not know how far the economy will fall in the midst of a downturn, and so the evidence of social influences during recessions that ultimately proved mild should still apply to worse contractions. However, severe downturns can weaken prevailing ideas (Dobbin 1993), and the stagflation of the 1970s crippled the Keynesian views associated with the CED (Mizruchi 2013). So it would also be useful to understand the (de)construction of particular economic strategies among different social groups.

Financial and competitive pressures had unexpected effects on employment during recessions. Greater profits and market share were associated with higher employment in growth years, as expected, but yielded lower employment during downturns. These unexpected results signify the importance of empirical investigation into how firms understand and respond to macroeconomic conditions. The actions of companies cannot simply be read from their financial and market positions. Instead, careful sociological research is needed to understand the drivers of employment decisions—a key sociological, economic, and political variable.

The basic specifications in my analysis also set up many dynamics that could be explored in future research. The varying intensities and timings of economic cycles along multiple dimensions beyond the GDP growth rate could be assessed, including trends in both material items and sentiments. Other relevant political forces such as unions and local governments could be examined. The relationship between recessionary business strategy and the geography of business investment, which is a robustness check here, could also be profitably expanded.

Finally, there are implications for the political management of economic cycles. In *Defense against Recession*, the CED emphasized the social contingency of macroeconomic trends: "Every decline need not cause a serious recession. Whether or not it does will depend largely on how the economic system responds to the initial decline. It can respond in a way that aggravates the initial drop or it can respond in a way that resists the decline and stimulates recovery" (1954*a*, p. 10). This article supports the CED's view of macroeconomic trends as malleable. In addition to other factors, the conflicting mobilizations of corporate executives in the CED and NAM shaped the corporate employment decisions that cumulated into the macroeconomic trends of the 1950s and 1960s. Efforts to stimulate business investment and hiring, such as President Barack Obama's recent Council on Jobs and Competitiveness, may benefit from considering this case. Participation by top executives in joint activities to resist recessions can yield sizable employment gains, while ties to groups guided by laissez-faire beliefs may hurt employment.

## APPENDIX

TABLE A1
DESCRIPTIVE STATISTICS COMPARING FIRM YEARS

| VARIABLE | CED FIRM-YEARS ($N = 157$) | | NAM FIRM-YEARS ($N = 78$) | | |
|---|---|---|---|---|---|
| | Mean | SD | Mean | SD | $t$-Test |
| Employees | 71.26 | 114.14 | 25.82 | 21.90 | 4.81*** |
| Recession year | .38 | .49 | .40 | .49 | −.23 |
| Log revenues ($t - 1$) | 6.50 | 1.47 | 5.90 | .83 | 3.99*** |
| Log cash ($t - 1$) | 3.92 | 1.66 | 3.24 | 1.00 | 3.91*** |
| Log debt ($t - 1$) | 3.91 | 2.10 | 2.95 | 1.93 | 3.49*** |
| Log assets ($t - 1$) | 6.35 | 1.58 | 5.64 | .93 | 4.36*** |
| Productivity ($t - 1$) | 1.82 | 1.59 | 1.41 | 1.13 | 2.28* |
| Merger and acquisition activity | .31 | .47 | .37 | .49 | −.90 |
| Profits ($t - 1$) | 161.47 | 306.91 | 31.50 | 41.96 | 5.21*** |
| Stock price ($t - 1$) | 64.31 | 51.23 | 42.56 | 17.46 | 4.79*** |
| ROE ($t - 1$) | −.00 | .03 | .01 | .04 | −3.12** |
| Market share | .12 | .14 | .04 | .05 | 6.53*** |
| Industry trend | .06 | .07 | .05 | .06 | .92 |
| Manufacturing | .88 | .33 | 1 | 0 | −4.64*** |
| Merchandising | .10 | .30 | 0 | 0 | 4.06*** |
| Utility | .02 | .14 | 0 | 0 | 1.74+ |
| Transportation | .01 | .08 | 0 | 0 | 1 |

+ $P \leq .10$.
* $P \leq .05$.
** $P \leq .01$.
*** $P \leq .001$.

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