IBM in American Politics, 1970-1999

David M. Hart

Kennedy School of Government
Harvard University

IBM is postwar America's paradigmatic business. A titan of growth, innovation, and salesmanship during the American (not quite) Century, it suffered a crisis of cash and confidence before recovering its footing as the century closed. While it no longer dominates the information technology industry the way it once did, IBM is still that industry's largest firm (as measured in sales) by far.

IBM's encounter with postwar American politics is equally paradigmatic. Up until the 1960s, the firm's charismatic first family, the Watsons, handled its business in Washington personally. In the 1970s, buffeted by changes in its political and economic environment and by the departure of the Watsons, IBM institutionalized its role in the policy process. Yet it did so in its own unique style, exaggerating certain characteristics of the larger mobilization of business in American politics in the period, while minimizing others. "Big Blue" became and remains a power player on the Washington scene. However, as its special economic position crumbled in the past decade or so, it has become more normal, muting the virtues and vices that make it stand out as a political actor but not eliminating them entirely.

The Watson Years

IBM, which acquired its present name in 1924, was the dominant firm in the pre-electronic era data processing industry, built around punchcard tabulating machines. Thanks to the New Deal and the war, the Federal government became its biggest customer. The Department of Justice’s (DOJ) antitrust division also played a role in the business, bringing suit (with little effect) in 1933 and again in 1952. Mediating between IBM and the government, and ruling the firm with an iron fist, was Thomas J. Watson, Sr., a prominent friend of Franklin Roosevelt and Dwight Eisenhower. Watson, Sr.'s role as chief salesman, image buffer, and personification of IBM became the template for his son and namesake [Sobel, 1981; Watson, 1990].
Thomas J. Watson, Jr., IBM's CEO from 1956 to 1971, drove the company's transition into the computer age. Government procurement played a critical role in this transition. "Lead users," particularly in the defense agencies and Atomic Energy Commission, supplied initial demand for high-priced, cutting-edge computers, helped debug their problems, and burnished IBM's image. Watson, Jr., cemented these relationships himself, beginning with the "giant boost" that the Air Force gave IBM with its SAGE air defense system in the mid-1950s. He did not use his political connections to win these contracts, however; the usual sharp-elbowed IBM sales tactics and extraordinary brand name sufficed [Watson, 1990, pp. 245-249, quote on p. 249; Usselman, 1990; Flamm, 1987, pp. 8-133].

Watson, Jr., certainly had political connections; he saw government service, as he put it in his autobiography, as "an opportunity to go beyond what my father had accomplished." He was a close friend of the Kennedys and enlisted in Lyndon Johnson's War on Poverty. While he did not use them to close sales, Watson Jr.'s ties to the Democratic party came in handy occasionally in "fixing" legislation that threatened to hurt the company. When Representative Wilbur Mills, for instance, proposed to plug a tax loophole that inadvertently penalized IBM's way of doing business, for example, phone calls or visits helped persuade him to back off. Arthur K. "Dick" Watson, Thomas, Jr.'s brother, and also a high-ranking IBM executive, had equally useful relationships on the Republican side of the aisle. The brothers both capped their political careers with the classic reward for partisan service: an ambassadorship, to France under Richard Nixon for Dick and to the U.S.S.R. under Jimmy Carter for Tom, Jr. [Watson, 1990, pp. 348-364, quote from p. 354; Gelman]

The Shock of Antitrust Prosecution

The Watsons left IBM within a year of one another in 1970-71 (although Tom, Jr., remained on the board), and IBM's personalized style of doing politics did not long survive their passage. In fact, the seeds of the transition to a more institutionalized approach had already been sown. The third antitrust suit against IBM, filed on the last day of the Johnson administration in January, 1969, had "an enormous impact on management consciousness" [Gelman] of the importance of politics to the business. Although IBM fought its battle against the DOJ largely in the judiciary, rather than the legislative or executive branches, the company's response to the suit laid the groundwork for its many activities in other issue areas during the 1970s and beyond.

IBM's personal connections failed to head off DOJ. Indeed, in a posture that IBM consultant James Newmyer characterized as "admirable but baffling," IBM general counsel Burke Marshall (the former head of DOJ's civil rights division, whom Watson, Jr., had hired on the recommendation of Bobby Kennedy) did not take full advantage of his contacts, particularly his close personal friendship with Attorney General Ramsey Clark, on IBM's behalf. Watson, Jr.'s
own efforts, including a last-minute appeal to Clark as a “fellow Democrat,” seem to have been too little and too late [Newmyer; Watson, 1990, pp. 402-3].

IBM’s failure to avert the antitrust threat may have stemmed from the strength of the government’s and related private cases, such as that of Control Data Corporation (CDC), against it. After an initial kneejerk response in which it unleashed a massive print advertising campaign proclaiming its innocence, IBM addressed the charges by renouncing some of its business practices, including bundling, and defending itself vigorously in court. Even after it opened an office to manage its public policy affairs in Washington (described below), the firm rigidly separated the legal issues of the antitrust case from the rest of its policy agenda in order to avoid even the appearance of political manipulation (although dark allegations continued to dog it). From a purely legal perspective, the strategy paid off; IBM won every case but one, and even that one was overturned on appeal [DeLamarter, 1986; Watson, 1990, pp. 403-406; Fisher, McGowan, and Greenwood, 1983, pp. 11-16; McKittrick].

These legal victories were, however, pyrrhic to a degree. The cases, which dragged on for over a decade due to tactical maneuvering and poor trial management, sapped executive attention and made IBM timid. The company’s chief scientist at the time, for example, recalled being forbidden from even purchasing the machines made by competing manufacturers in order to study how they worked [Watson, 1990, p. 412; Branscomb]. Whether IBM could have shortened the case or averted it altogether if it had had a different sort of political presence is unknowable. What is certain is that the case served as a wake-up call that changed IBM’s relationship with the Federal government forever.

**Becoming a Corporate Political Actor**

Despite the shock of the antitrust suit, Thomas Watson, Jr., clung tightly to his methods for achieving IBM’s political objectives. In a discussion with his successor, Frank Cary, in 1973, Watson recalled, “I told Frank that the most graceful and effective way to do this is in person, and that probably the worst way is to have a Washington office staffed with professional lobbyists.” [Watson, 1990, p. 427] Cary did not exactly follow this advice. In 1975, he authorized the establishment of a public policy office under Charles E. McKittrick, Jr., which rapidly grew to be one of the largest such offices in corporate Washington. Yet, he did not exactly neglect Watson’s advice, either; the Washington office was not “staffed with professional lobbyists,” at least to begin with.

IBM’s formal presence in Washington politics during the Watson years was limited to two or three people who served as its “eyes and ears.” These employees read the Congressional Record, but little more. They were forbidden, for instance, from even attending legislative hearings. Kept at arms-length from Watson himself, the Washington staff reported to IBM’s communications department, which was primarily concerned with advertising. From the IBM perspective, this office was not a fast-track assignment for promotion within
the company; the few Washington hands who were hired by IBM found being limited to using only their “eyes and ears” inordinately stifling [McKittrick; Gelman; Newmyer].

The listening post approach, even supplemented by the counsel of Newmyer Associates, proved inadequate to the task of keeping track of the inevitable interaction of a rapidly growing multinational business with an increasingly interventionist Federal government, much less coordinating the company’s responses. An array of new threats, beyond antitrust prosecution, emerged in the early 1970s. Senator Hartke and Representative Burke, for instance, began a push in 1971 for major changes in the taxation of the foreign income of American companies, a proposal which would have had devastating consequences for IBM, which generated about half of its revenues and profits outside the U.S. Similarly, Nixon’s wage and price controls portended government interference with corporate policies that went far beyond what the non-union firm had experienced outside of wartime [Think, March, 1973, pp. 17-31, and January, 1972, pp. 24-26].

The steady accumulation of such interests in Federal activities combined with the personnel changes at IBM headquarters and the ongoing antitrust case to spark a reappraisal of its Washington operations. Cary’s new communications director, Jane Cahill, had served in the Johnson White House, and her approach to the job reflected that experience. McKittrick came from the old IBM school of salesmanship, but had worked extensively in Washington, selling to Federal agencies and other public sector customers. In January, 1975, Cahill, McKittrick, and Leslie Simon of Cahill’s staff proposed that IBM set up a new governmental programs office to replace the “eyes and ears,” and Cary approved [McKittrick; Gelman].

Although this office was to be in Washington, the vision for it echoed some of Watson’s disdain for politics as usual. As Cary put it in a 1978 interview, “our political actions center around issues, not candidates.” One element of the vision was to build public policy expertise from within the company, rather than hiring Washington insiders. This dictum revealed a certain arrogance about the intelligence of IBMers, but it also reflected the office’s need for internal credibility and knowledge of the business and the industry. The Watsons’ motto was “Think” (memorialized as the title of the company’s monthly magazine), and the image of influence-peddling ran against the grain of the corporate culture. McKittrick’s true Blue background, which included a stint as a Watson assistant, helped assuage such concerns; his weekly visits to IBM’s Armonk, New York, headquarters reassured doubters and cultivated constituents there [Silk, 1978; McKittrick; Gelman].

The IBMers whom McKittrick hired became not lobbyists but “issue managers,” a term coined the year after the office opened. Whereas the lobbyist’s critical resource was “who you know,” the issue manager’s was to be “what you know.” The issue manager was responsible for learning the substance of a policy debate in great detail and developing IBM’s position on it. He (or, later, she) then followed the issue to all of the venues in which the outcome might
be affected, not only in Congress, the executive agencies, and the regulatory commissions, but also in business associations and other non-governmental fora and, eventually, at the state and international levels as well. While someone else, up to and including the CEO, might ultimately represent the company in a particular venue, the issue manager designed the strategy for what would be said and when. “Issues management” satisfied the governmental programs office’s need for internal credibility and maintained IBM’s technocratic public image. [McKittrick; Lehmann; Caine]

Learning to Play the Game

The political learning process for issue managers, for senior executives, and for IBM as a whole was not instantaneous. Over the course of the 1970s, the firm went from being a “political innocent, sort of a joke” (in the eyes of an observer) to as sophisticated a player as Washington had to offer. IBM’s massive investment in public policy ultimately paid handsome dividends.

Cary’s chairmanship of a Business Roundtable report on regulatory reform was one “tremendously important” episode in the learning process. The Roundtable was founded in 1972 and soon became big business’s most effective collective representative, in part because it engaged CEOs personally. For the low-key Cary, the clubby Roundtable was a more comfortable environment in which to operate than the political scene in which the Watsons had flourished. Cary and IBM shared the Roundtable’s broad agenda of free trade and limited government intervention, but had only a modest direct stake in regulatory reform since the computer industry was largely unregulated. Nonetheless, the governmental programs office made a major commitment to the issue, helping to give Cary national credibility and visibility. The experience moved IBM from the sidelines into action as a corporate political entity for the first time. Although the report did not lead immediately to policy changes, Cary’s role validated McKittrick within the firm, and the process showed his staff members how the big boys played the game [McKittrick; Gelman; Vogel, 1989, pp. 172-174 and pp. 198-203].

McKittrick’s close relationship with the CEO was an essential element of his office’s success. From the outset, IBM envisioned its public policy operations as being strategic, rather than reactive, and taking a long-term perspective. The new Washington office was not a sales or marketing office for IBM’s public sector business. It was funded by corporate headquarters. While it had to account for its successes and failures to the CEO and work with particular business unit “clients” within the firm, it was not vulnerable to the ups and downs and short-term needs of these business units. Nor, in part to maintain its distance from the antitrust case, was the office accountable to the general counsel. McKittrick feared being “lawyered” into narrow, myopic positions. This vision of the public policy function gave IBM a distinct profile among its big business peers. Its positions were more nuanced, and its agenda broader. McKittrick did not want to “fight Vietnams” on minor tax and trade issues in
order either to defend ideological principles or to secure special deals for IBM. IBM was pragmatic, its actions grounded in exceptionally thorough research by the standards of the day [Gelman; McKittrick; Lehmann].

IBM's management structure and approach allowed it to pursue opportunities as well as to react to threats. One example of opportunity-seeking is its long skirmish with AT&T over the boundaries of telecommunications regulation. IBM recognized the impending technological convergence of computers and communications in the late 1960s, as networking boomed. It soon saw a promising new business that merged voice and data transmission with data processing. Large multinational customers could sidestep national phone companies around the globe by contracting with IBM and purchasing its equipment. Success in such a venture, IBM thought, was contingent on reducing regulation of the telephone equipment market and ensuring that AT&T competed on an equal footing. The governmental programs office thus plunged deeply into a series of arcane Federal Communications Commission (FCC) and court proceedings and bare-knuckled political fights in Congress. At one point in 1976, the entire staff of the office was deployed to Capitol Hill in a successful effort to delay the so-called “Bell bill,” which would have reestablished AT&T's regulated monopoly position [Sobel, 1986, pp. 195-6; Stone, 1989, pp. 195-272; Think, May, 1981, pp. 30-31; U.S. Senate Commerce Committee, 1977; McKittrick; Hackman; Branscomb].

IBM's success in keeping the computer industry free of regulation validated its investment in public policy, even though the company failed in telecommunications. Cary was said to have claimed, only half-jokingly, that the investment in the phone business was worthwhile merely to stop the encroachment of the FCC into IBM's turf, even if it lost money. Of course, the company's issue expertise and lobbying effort were only partially responsible for this policy outcome. As IBM employees and observers note, the company and the industry had a special aura that made its views welcome where those of other corporations were not; it was “pushing on an open door” [Hackman; Gelman; Branscomb].

**Power Player**

In 1982, the antitrust division abandoned its case against IBM. The firm remained the “800 pound gorilla” of the computer industry; as late as 1986, a bitter critic characterized it as “the single most powerful firm in the world today.” IBM's CEOs (John Opel and John Akers followed Cary) judged its public policy operations to have made valuable contributions to the company's remarkable run. The Washington office thus continued to grow and to elaborate IBM's distinctive political model [DeLamarter, 1986, p. xiii].

Issues management diffused widely among corporations in the late 1970s and 1980s, but IBM remained bigger and deeper than its peers. The exact size of the governmental programs office is hard to pin down, but it may have reached nearly one hundred professionals at its peak. IBM's issue managers
were known and often highly respected on conventional business issues like tax, trade, and regulation and on issues peculiar to the high-tech sector, such as R&D policy and export controls. They were usually on the invitation list when key meetings were called [McKittrick].

Arguments on the merits alone, however, even when based on thorough analysis and graced by the IBM mystique, were sometimes insufficient. As the antitrust case and the specter of the Watsons faded, IBM enhanced the "who you know" dimension of its public policy investment as a "delivery system" for these arguments, particularly for their delivery to Congress. This "government relations" function centered around "grasstops" (a play on "grassroots"), senior IBM executives in every state whose influence could be brought to bear on their elected representatives. While other companies developed similar capacities, as in issues management, IBM's government relations went further than its peers'. Senior executives in the field were expected not merely to show up as totems for IBM lobbyists to display, but to articulate the company's arguments, relate them to their home districts, and cultivate relationships. The Washington office invested substantial resources in the grasstops, while they in turn were accountable for their performance in this sphere in job evaluations [Gelman; Perry; Caine].

Another aspect of IBM's political sophistication was its dominance of the activities and agendas of key trade associations. Trade associations provided a complementary or alternative delivery system for IBM's messages, cloaking them in the mantle of the larger industry interest. IBM could also neutralize associations on issues that divided the industry, while pursuing its interests on its own. IBM's suppliers and customers, which encompassed much of the rest of the computer industry, typically lacked the power to challenge IBM within associations (or to join explicitly anti-IBM associations) and the mass to go it alone. IBM issue managers had a large say in whether the company should be out front or behind the scenes and which delivery systems it should utilize [Brousel, 1986; Cohen, 1977; Gelman; Lehmann; Hackman].

IBM's continued growth, passing $45 billion in sales in 1984, ten times the figure when Watson, Jr., stepped down, placed a premium on this sort of coordination. McKittrick deemed it essential that the company, no matter how big it was, present "one face to the customer" for IBM's opinions. The high-tech trade dispute with Japan in the 1980s illustrates some of the challenges facing IBM's public policy office. The flashpoint was the importation of low-cost dynamic random access memory semiconductor chips (DRAMs), a widely-used component of computers that was also seen by many as a "critical" technology for domestic industry and the nation as a whole. IBM produced DRAMs for its internal use; it also purchased them domestically and abroad. It held a major stake (up to 30%) in one of its primary chip suppliers, Intel, during much of the decade. IBM Japan was one of that country's largest electronics firms and took pains to portray itself as authentically Japanese. And yet IBM was also embroiled in a series of intense disputes with Japanese competitors over intel-
The company thus had an interest in cheaper chips and dearer chips, in American chips and Japanese chips. It is not surprising that it engaged in what the Washington Post labeled “two-faced lobbying.” IBM endorsed “techno-nationalist” measures to enhance R&D cooperation among domestic semiconductor makers, which were pushed by the Semiconductor Industry Association (SIA), of which it became a member in 1982. It also chose not to oppose the SIA-endorsed U.S.-Japan Semiconductor Trade Agreement of 1986, which imposed “voluntary” limits on Japanese imports and set targets for U.S. exports. In the wake of this agreement, however, chip prices spiked upwards, straining IBM’s computer systems divisions. The Washington office was forced to embark on a formal process of adjudicating the firm’s diverse interests, a process that went to its very top before being resolved. The resolution was to take the lead in the establishment of a new organization, the Computer Systems Policy Project (CSPP), composed of the CEOs of thirteen large manufacturers, and this organization then negotiated an agreement at the CEO level with SIA to establish the parameters of the relatively toothless renewal of the semiconductor trade agreement in 1991 [Richards, 1989; Think, June, 1989, pp. 51-52; Lyons, 1987; Mundo, 1992; Flamm, 1996; Robertson, 1989; Lehmann; Kay].

IBM at the peak of its public policy investment could have been parodied as preachy, as ruthless, or as devious, depending on which of its qualities one’s attention alighted. Unlike many other big companies, however, it could not be caricatured as buying favors; it had no political action committee (PAC). The opportunity for corporations to create PACs coincided roughly with the opening of IBM’s governmental programs office in 1975, and the expansion of the PAC universe paralleled the growth of IBM’s public policy investment. By 1980, 280 of the Fortune 500 had PACs, including 82% of the top 125 (IBM ranked eighth). IBM’s choice not to invest in political campaign contributions was quite deliberate. In part, it was maintaining the Watson legacy of disdain for everyday politics and its image of rationality. In part, it was an instrumental decision, reflecting skepticism that a company for whom doors naturally opened needed the access it would gain from PAC contributions. And, in part, it reflected the perceived costs that having to make partisan choices would entail, both inside and outside the company [Ryan, Swanson, and Buchholz, 1987, p. 129; Perry; McKittrick; Gelman].

**Becoming More Normal**

Perhaps no company has fallen so far from so high a perch as IBM. In 1984, IBM made $6.6 billion, then a record for a U.S. corporation; in 1992, it lost $5 billion. Hollowed out by suppliers like Microsoft and Intel, superseded by upstart innovators like Compaq and Dell, Big Blue made one big mistake after another. In an extraordinary move for a company so proud of its culture and traditions, IBM’s board forced out CEO Akers in January, 1993,
and brought in an outsider, Louis Gerstner. Gerstner reversed his predecessor's course, repositioned the firm, and executed another extraordinary turnaround in IBM's fortunes. In 1998, the firm grossed more than $81.7 billion, of which $6.3 billion was profit [Ferguson and Morris, 1993; Carroll, 1993; IBM home page, 1999].

IBM's Washington office shared the pain of the parent company's "near death experience." IBM's public policy investment "came down dramatically," in the words of the current vice president for governmental programs, as his group "did what we needed to do to be a good team player." The new senior management imposed a more rigorous framework for evaluating public policy activities, particularly spending on consultants and trade associations. IBM's issue agenda narrowed, becoming more closely aligned with its immediate business priorities. The new IBM is less self-consciously representative of American big business and high-technology as a whole and therefore, ironically, more like a normal firm [Lehman; Caine; Gelman; Hackman].

The crisis and its aftermath coincided with innovations in, as well as limitations on, IBM's public policy style. For instance, IBM mobilized its rank-and-file employees in a "grassroots" (rather than merely a "grasstops") campaign for the first time during the NAFTA debate of 1993, a tactic it has used several times since. In doing so, it has made more aggressive use of new information technology to communicate and to coordinate its political activities. IBM has also begun to work more closely in public policy with its customers. This effort reflects the company's (and the industry's) new policy agenda and business strategy, centered around electronic commerce, an agenda has substantially increased the Congressional role in the world of information technology [Rifkin, 1994; Mintz, 1994; Caine; Perry; Sheehy].

IBM has even dabbled in giving financial support to candidates by providing corporate funding for non-campaign events or causes that are closely associated with candidates. Such activity reflects the growing significance of money as a resource in American politics as a whole in the 1990s and the rise in the relative importance to the firm of Congress, the decision-making venue in which this resource is most important. Yet, despite an extensive internal debate, IBM still has no PAC, one of only eight hold-outs among the hundred largest corporations. Indeed, IBM is still known for its distinctive emphasis on expertise and pragmatism. Instead of being the only kid on the block, as it was during its glory years, IBM is now the "adult" in an industry full of brash newcomers who often disdain politics and especially politics as usual. For instance, it is IBM that attempts to find common ground between the new "cyber-libertarians" on the one hand and stodgier interests like law enforcement and intelligence on the issues of export controls and cryptography. And, despite being down-sized, IBM's governmental programs office still dwarfs those of other firms; IBM's reported lobbying expenses in 1997 were about $5 million, compared to Hewlett-Packard's $500,000, Intel's $600,000, and Microsoft's $1.9 million [Stencel, 1992; Vartabedian, 1997; Perry; Center for Responsive Politics, 1999].
IBM, then, may be more like a normal firm now than it was, but it is not exactly normal. It can reasonably asserted that the “core principles” established by Cary, Cahill, McKittrick, and Simon, issue-oriented and knowledge-based, are still in place, maintained by IBM’s distinctive culture and organizational structure. The firm’s policy positions are developed in Washington, not headquarters, with the CEO’s personal participation. By inclination and because of IBM’s size and complexity, these positions are more moderate than those of other firms. The massive scale and efficient use of its public policy investment gives IBM a voice that is still disproportionately loud, even in today’s noisier political environment.

Interviews (conducted in February and March, 1999)

Branscomb, Lewis M.
Caine, Christopher
Gelman, Norman
Hackman, Timothy B.
Kay, Kenneth R.
Lehmann, Richard O.
McKittrick, Charles E., Jr.
Newmyer, James
Perry, Edmund F.
Sheehy, Timothy J.

References

Brousel, David R., “Coming of Age; a Host of Challenges, Both New and Old, Face Adapso as it Marks its 25th Year,” Datamation (October 15, 1986), 66.
Carroll, Paul, Big Blues: The Unmaking of IBM (New York, 1993).
DeLamarter, Richard Thomas, Big Blue: IBM’s Use and Abuse of Power (New York, 1986).


Richards, Evelyn, "Red, White and Big Blue; IBM is Leading the Charge of High-Tech Nationalism." *San Jose Mercury News* (July 1, 1989), 1C.


