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Making Embedded Liberalism Work

Domestic Sources of the Postwar Liberal Subsystem

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A thesis submitted to the Faculty of Graduate Studies and Research
in partial fulfillment of the requirements of the degree of Ph.D.

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For my family

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ABSTRACT

Under what conditions did conservative governments of the major industrial countries commit themselves to building domestic institutional frameworks for embedded liberalism as an international economic subsystem? As a way of answering the question, this study looks into informal and formal institutional arrangements for domestic compromise among classes and sectors. During the 1950s, governments in the United States, Britain, France, and West Germany sought to accommodate working-class demands and achieve a stable domestic economy within the institutional limits set by the prior experiences dating back to the interwar years. At the informal level, organized labor and business community in each country interacted with each other to produce varying forms of labor-management conflict resolution mechanism. At the formal level, political parties became more centrist in the domestic economic policy areas in order to maximize votes in an era of catch-all party politics. National outcomes varied from the semi-privatized welfare state in the United States to the liberal Keynesian welfare state in Britain to the *dirigiste* interventionist state in France to the social market economy in West Germany. Although those nationally distinct institutional arrangements reduced international policy coordination, embedded liberalism could work as long as participating countries shared the social purpose that domestic stability and international liberalization should not be incompatible.

RÉSUMÉ

Sous quelles conditions les gouvernements conservateurs des principaux pays industrialisés se sont-ils engagés à développer des infrastructures institutionnelles basées sur le libéralisme en tant que sous-système économique international? Cette étude tente de répondre à cette question en analysant les ententes institutionnelles formelles et informelles faisant partie des compromis parmi les classes et les secteurs. Lors des années 1950, les gouvernements des États-Unis, de la Grande Bretagne, de la France, et de l'Allemagne de l'Ouest ont tenté de répondre aux requêtes de la classe ouvrière ainsi que de réaliser des économies domestiques stables tenant compte des limites institutionnelles établies pendant la période de l'entre-deux-guerres. De façon informelle, la main-d'oeuvre syndiquée et les regroupements d'affaires de chaque pays entretenaient des dialogues afin d'établir des mécanismes de résolution de conflits pour les relations patrons-ouvriers. De façon plus formelle, afin de maximiser les possibilités de votes, les partis politiques sont devenus plus centristes dans leurs politiques d'économie domestique. Les résultats ont varié d'un pays à l'autre: l'établissement de l'État-providence semi-privatisé aux États-Unis, l'État-providence libéral et keynésien en Grande-Bretagne, l'état dirigiste et interventioniste en France, et l'économie de marché social en Allemagne de l'Ouest. Bien que ces fonctionnements institutionnels nationaux distincts réduisaient la possibilité de créer une politique globale, le libéralisme enchâssé pouvait fonctionner aussi longtemps que les pays participant croyaient qu'une stabilité domestique et la libérisation internationale n'étaient pas incompatibles.

PREFACE

THIS DISSERTATION DEALS with two sets of questions; one is empirical, the other is theoretical. As an empirical study of the postwar liberal subsystem, it probes into the domestic sources of the new international economic order that emerged after 1945 with special reference to social and political conditions of the United States, Britain, France, and West Germany. As a theoretical explanation for embedded liberalism, it represents an effort to combine rationalist and historical institutionalism as modes of account, and societal and institutional models as analytical frameworks.

When a “liberal” approach to international political economy is defined as a perspective to look at domestic politics variables in explaining international outcomes, it is evident that the literature in this subfield has been dominated by rational institutionalist research programs for the past decade. While allowing us to locate specific connections between domestic variables and international outcomes, rationalist institutionalism seems to have gone too far in the direction of ignoring the “social construction of institutional reality.” Understanding the origins of the post-World War II international economic order in particular requires one to pay full attention to social dimensions of the subsystem, just because it was designed to serve dual purposes: international liberalization without jeopardizing domestic political and social stability. Despite the empirical and analytical importance of social dimensions, existing studies have failed to do justice to them in addressing the question of how the postwar regime emerged.

Moreover, the existing literature has concentrated on explaining why and how the postwar liberal subsystem by the name of the Bretton Woods regime came to deteriorate and finally collapse. Although I have discussed the sources of regime instability in the text, I started this project out of the belief that understanding origins is crucial to understanding subsequent developments, whether they be collapse or survival. I have located the origins of embedded liberalism in the domestic institutional arrangements for working-class accommodation and political consensus making towards sustained economic growth. More specifically, I have focused on the structure of associational networks woven by two major organized interests, capital and labor, and on the process

of interaction between the two, along with the intervening role of political regimes. Those structures and processes have been operationalized in the distinctions between corporatism and pluralism as an informal mode of interaction, and between adversarial and consensual polity as a formal mode of interaction. These lead to a typology that captures the national experiences of the four country cases.

The four countries selected for this study—the United States, Britain, France, and West Germany—are indicating the divergence of national experiences within the context of remolding the liberal international economy in accordance with social compensation functions. Chapter 2 argues that the American mixture of welfare capitalism and welfare state was made feasible through the strategic alliance between the liberal, internationalist faction of big business and the reformist, pragmatic leadership of organized labor. Chapter 3 describes that Britain adopted an explicitly Keynesian policy package, while still giving top policy priority to defending the international status of sterling and argues that such discrepancy between domestic Keynesianism and sterling policy became a source of the British disease in the absence of institutionalized support for corporatism. Chapter 4 shows why France failed to achieve a historical compromise between capital and labor, which was the order of the day, and explains how the labor-free growth coalition could persist at least until May 1968, while responding to working-class demands through state-labor interactions and government-business bilateral relations instead of tripartite consultation. Chapter 5 argues that the West German political economy refurbished itself following the guidelines imposed by the United States but with the institutional resources of its own such as well-organized core interest groups and their cooperative industrial relations, politically independent central bank and so on.

Compared to the U.S. and British cases, I have put more emphasis on institutional legacy in the cases of France and West Germany largely because the latter countries were the receiving end of international policy coordination during the late 1940s and 1950s. But the weight of the past is a core theme running through the whole study. The four countries reformulated the terms and conditions of the postwar domestic political economy with distinct institutional resources inherited from the late nineteenth century and interwar period. “Institutional inertia” and “path dependency” are, therefore, essential, conceptual tools for weaving my arguments. Chapter 6 applies those tools to an overview

of what has happened to embedded liberalism since the 1980s and what institutional shapes it will take for the years to come. In the concluding chapter, I second John Ruggie's view that we still live with embedded liberalism insofar as the social purpose constructed in the early postwar years remains the same by suggesting a possibility of "reembedded liberalism" as an extended liberal subsystem.

But I have to add that what concerned Ruggie as of 1982 was the rise of illiberal economic order that has gone by the names as diverse as neomercantilism, the new protectionism, and regionalism, while today's concern is with the hegemony of neoliberalism. We need to focus on this tendency for the very reason that various neoliberal measures threaten the social components of international liberalism. Although I admit that there exist symptoms of disembedded liberalism, I argue that institutional developments for welfare state since 1945 have produced a huge body of "stake-holders" in embedded liberalism and that centrist, catch-all parties well realize the "electoral" and "social" limits to policy switch they can push for in a more marketizing direction. Those are domestic conditions that will sustain the structure of embedded liberalism in an era of globalization.

The other additional point I have made in Chapter 6 is that the scope of embedded liberalism needs to be enlarged down to the "South" because of the extensiveness of neoliberal transformations. Unlike the early years of embedded liberalism, developing countries remain no longer in the outskirts of the liberal subsystem. They are becoming more equally subject to the rules of international liberalism largely due to the end of the Cold War, which ended the grace period of practicing illiberalism domestically. I argue that incorporating economically unsound and politically shaky countries is a major task challenging today's collectivized liberal leadership because it involves coping with the wide gap between social purposes of the two zones of the globe.

ACKNOWLEDGMENTS

IT WAS FIFTEEN years ago while I was a political science student at Korea University that I came to know about the works of Karl Polanyi including his masterpiece, *The Great Transformation*. Later in graduate school I also read John Ruggie's 1982 *International Organization* article. But my premature Polanyian perspective had more to do with historical sociology of pre- or proto-capitalist modes of production than with political economy of contemporary capitalism. And I paid no more than passing attention to Ruggie's intellectual debt to and conceptual application of Polanyi's ideas to the study of international economic order. For the two years before coming to McGill, my research interest moved to the problem of democratic transition and breakdown in interwar Europe; and particularly the "negative integration" of left-wing oppositions in late-developed democracies such as Germany and Italy. In other words, I was a comparativist, then. Although I later became more familiar with the literature of international political economy, I only had a vague idea when it came to combining the two strands of political-economic research.

At McGill, I began to achieve a more specific understanding of the connection between comparative and international political economy, thanks to the guidance of Mark Brawley. The courses I took with him gave me a wider perspective of the puzzles left unresolved in the booming subfield: *domestic sources of foreign economic policy*. Working as his research assistant turned out to be a great asset to me because his assignments led me to figure out how to flesh out theoretical arguments with historical evidence. Mark was also flexible enough to allow me to draw concepts and analytical tools from the fields of comparative politics, industrial relations, and history. "Raising the bar" is not an easy job, and I have a long way to go in this interdisciplinary endeavor without losing rigor. What Mark did was make the endeavor enjoyable. I only hope that my future career would approach the standard he set as advisor, researcher, teacher, and most importantly as open-minded colleague. I also wish to thank Hudson Meadwell, who suggested in a summer reading seminar that I look into France as a borderline case

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between liberal and illiberal political economies, T. V. Paul, who taught me how to make a research design and led me to rethink how to justify my case selection, and Rex Brynen, who urged me to keep track on explaining the historical cases without being distracted by the desire to seek more contemporary relevance. They all are the teachers and scholars who made the McGill period of my intellectual odyssey formative, rewarding, and successful in their own ways. I also thank John Hall for giving me a sobering chance to ponder what amount of hard work would be required for a foreign student who wants to know about other peoples and nations.

Outside McGill, Michael Hiscox made his unpublished papers available to me while I was struggling with inchoate ideas at the stage of thesis proposal; and Chris Howell kindly sent me his papers with the permission of citation in a later stage of writing. Eric Helleiner provided me with written comments on the dissertation, which made the final revision doable in spite of my unwillingness to look back over the text. The three reminded me that the academic community exists and matters.

Portions of Chapters 1 and 6 were presented at the Annual Convention of the International Studies Association, New Orleans, March 24–27 and the Annual Conference of the Canadian Political Science Association, Toronto, May 29–31, 2002. In the two meetings I benefited from the feedbacks given by Leah Haus, Tony Porter, and Louis Pauly. The valuable experience “south of the border” and “upper Canada” helped me hone my skills in getting still vague ideas across and, that way, contributed to this final work. I also should thank the Department of Political Science, Faculty of Graduate Studies and Research of McGill University, and McGill/Université de Montréal Joint Research Group in International Security (REGIS) for their financial support that made possible participation in the ISA conference. The McGill Political Science Department and again Mark Brawley, by hiring me as his research assistant, gave me financial support during much of my Montréal years. McLennan Library of McGill University provided me with a quiet study, and its staffs were so patient with a student always stacking their workstations with a bunch of dusty books. Mélanie Raymond kindly undertook the chore of preparing the French version of abstract in the middle of the most romantic time of her life. My thanks go to them all.

Back in Korea, I have wonderful teachers who introduced me to the joy of studying politics—its human as well as institutional aspects—and encouraged me to study abroad. Jang Jip Choi is an intellectual mentor who led me to realize the worth of taking political science as a “vocation,” and much of this work shows my training under his guidance, even though we have been a big ocean apart for the past five years. I should also thank Young-Chul Paik, Byung Kook Kim, Sang Yong Choi, Jin-Young Suh, Chung-Nam Cho, Simon Bok-Ryong Shin, Sung Han Kim, Kyudok Hong, Byung-Kon Kim, Yul Shin, Suk-Jun Lim, Miongsei Kang, and Sae Jung Kim for their warm encouragement at various stages of my study. Keung Ryong Chang and Myung-Lim Park have been a source of unfailing support. Sang-Ho Cho has shown unwavering interest in my work, and I truly appreciate it.

Finally, I owe a huge debt to my parents who have encouraged and supported my study well beyond the time limit considered reasonable by any standards. Since day one, raising me as a cooperative citizen as well as a good scholar has been the “social purpose” in my family. Now it’s time to prove their long-time project is bearing some fruits. I am also grateful to my sisters for not hating their little brother who has taken more than his fair share of parental love. After all those years, I still have no idea of how to repay them. My excuse would be “pay it forward,” especially to my son, Ian, who has grown up along with the following pages. He and his mom, Jung-Ah, must be the last but not least in this line of thanks.

Making Embedded Liberalism Work

CHAPTER ONE

Explaining the Domestic Sources of Embedded Liberalism

AN INQUIRY INTO THE “POLITICAL AND ECONOMIC ORIGINS OF OUR TIME”

EMBEDDED LIBERALISM AS an international economic subsystem reflects a pressing need felt by the liberal community to address the dilemma between international liberalization and domestic compensation.¹ It started from a political (rather than economic) belief that the costs of adjusting to economic openness can be shared among social and economic groups through a set of institutional arrangements for class compromise, mostly between organized business and organized labor. Economic openness brought about by multilateral agreements among the major industrial nations could go hand in hand with social stability through a wide range of state activities within the national economy, especially the expansion of social insurance programs. This new development was accompanied by the widespread acceptance of Keynesian policy ideas among the major participants in the subsystem by the 1960s. Full employment became recognized as capable of generating stability and predictability in industrial production when combined

¹ The term embedded liberalism was coined by John Ruggie who drew upon the ideas of Karl Polanyi. See Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 1957[1944]), chap. 5, especially p. 57; Ruggie, “International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order,” *International Organization* 36 (1982): 385. The notion of domestic compensation in exchange for economic openness was also developed by Peter Katzenstein in “The Small European States in the International Economy: Economic Dependence and Corporatist Politics,” in *The Antinomies of Interdependence: National Welfare and the International Division of Labor*, ed. John Gerard Ruggie (New York: Columbia University Press, 1983), pp. 91–130.

with well-conceived fiscal and monetary policies. “[S]tate intervention shifted from being sporadic (in particular wartime) to being accepted as intrinsic to economic growth.”²

Fueled by unprecedented rates of economic growth, major industrial nations could afford to provide their citizens with generous social services while at the same time operating their national economies in accordance with the norms/principles and rules/procedures of the liberal international economy. Such a happy coexistence of national welfare and international regime stability, however, was made possible through a guarantee of national autonomy in monetary and fiscal policy areas. Even in the area of trade, each participating country could legitimately defect from the regime when doing so was seen as necessary to protect its national economy and society from the negative effects of economic openness. The General Agreement on Trade and Tariffs (GATT), an institutional linchpin of the Bretton Woods regime, indeed, allowed individual governments to use tariff barriers to secure balance of payments stability. Embedded liberalism could work when governments accepted Lord Keynes’s proposal that “let goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national.”³ Particularly, controls on short-term capital movements

² Jeanne Kirk Laux and Maureen Appel Molot, *State Capitalism: Public Enterprise in Canada* (Ithaca: Cornell University Press, 1988), p. 1.

³ Keynes cited in Ethan B. Kapstein, *Governing the Global Economy: International Finance and the State* (Cambridge: Harvard University Press, 1994), p. 1. The famous quote comes from a 1933 *Yale Review* article entitled “National Self-Sufficiency” in which the economist rejected the rules of international liberalism. Despite the seeming contradiction between Keynes’ recommendations and embedded liberal ideas, it must be noted that embedded liberalism was incorporating some illiberal elements during its formative period.

under the tacit agreement of the United States were “a shield that helped deflect the blows of international competition and ameliorate its domestic political effects.”⁴

The subsystem depended for its stable functioning on the predominant power, both economic and military, of the United States, which was concerned to rebuild the international liberal economy and protect it from the perceived communist threat. The new hegemon “proved willing to finance Europe’s deficit on current account well into the 1950s if not longer”⁵ by means of the gold-dollar standard. The United States even acquiesced to discriminatory trading practices on the part of European countries. Imperial generosity for the purpose of containing international Communism was extended to Japan almost at the same time as Europe, and to the newly industrializing countries (NICs) later. In sum, embedded liberalism at the time of creation was a combined outcome of common social purpose of reconciling the domestic with the international political economy, high levels of economic growth based on standardized mass production system, and U.S. hegemony coupled with bipolarity.

Among the three founding conditions, the last two significantly have weakened or almost disappeared. Standardized mass production system with a high concentration on manufacturing has begun to be surpassed by the flexibility and diversity of the growing services sector. Although a recent study rightly argues that the “transition from an economy dominated by (exposed) manufacturing production to one dominated by (sheltered) services production” does not directly lead to “convergence of policies and

⁴ John B. Goodman and Louis W. Pauly, “The Obsolescence of Capital Controls? Economic Management in an Age of Global Markets,” *World Politics* 46 (1993): 79.

⁵ Charles S. Maier, “The Politics of Inflation in the Twentieth Century,” in *The Political Economy of Inflation*, ed. Fred Hirsch and John H. Goldthorpe (London: Martin Robertson, 1978), p. 60.

institutions,”⁶ it is difficult to deny that increasing services sector employment reduces the room for working-class organization and collective bargaining, which are an institutional mechanism connecting economic productivity to mass purchasing power. Relative decline of U.S. economic power and the end of the Cold War has provided the American policymakers with good excuses for pressuring European and Japanese allies to share the burden of maintaining the liberal subsystem and, more important, for launching aggressive neoliberal policy drives across the subsystem.

There remains social purpose of embedding international economic liberalism into domestic political compromise. Social purpose may be a tricky concept, but can be defined here as the goal that a political-economic regime is committed to achieving as a by-product of industrial growth and capital accumulation. For the club members of embedded liberalism, social purpose was balancing national welfare with international economic openness. Despite the fact that more and more countries have turned to neoliberal remedies for the so-called “fiscal crisis of the welfare state,” there is much evidence to suggest the presence of the still “large and vibrant welfare state.”⁷ Michael Webb notes that “despite the 1980s shift toward monetarist rhetoric in economic policy, governments continue to value—and to pursue—Keynesian demand stimulus.” He sees the role of the United States since the 1980s as boosting exports of other countries and thereby enhancing freer trade by means of expansionary policies domestically. Focusing on European countries, Geoffrey Garrett argues that the wave of globalization and social

⁶ Torben Iversen and Anne Wren, “Equality, Employment, and Budgetary Restraint: The Trilemma of the Service Economy,” *World Politics* 50 (1998): 508–9.

⁷ Torben Iversen and Thomas R. Cusack, “The Causes of Welfare State Expansion: Deindustrialization or Globalization?” *World Politics* 52 (2000): 313.

democratic governance are not incompatible because powerful left-wing parties associated with centrally organized labor movements make possible the production of collective goods undersupplied by the market such as public education and training as well as physical infrastructure, which is essential for sustained growth.⁸

If we still live with embedded liberalism, we should be able to explain under what conditions the postwar settlement could develop and to what extent such conditions keep shaping both the international and domestic political economy. While there is no dearth of scholarly accounts of why and how the Bretton Woods regime ceased to govern the world political economy by the mid-1970s, the existing literature shows the relative lack of interest in the question of how the postwar compromise between domestic needs and international requirements came into existence. Alan Milward nicely captured the question in the following:

How did a boom whose origins lay in an intensely nationalistic reconstruction of capital goods industries and the national infrastructure turn, without apparent interruption, into an export-led boom in increasingly open economies driven forward by high levels of consumption?

This question is also related to another important one: “why was Europe’s reconstruction after the Second World War so much more successful than after the First, and ... why, at least for that brief period, the post-war boom proved so much more durable than its precursors?” According to Milward, it was because “the political reconstruction was more successful.”⁹

⁸ Webb, *The Political Economy of Policy Coordination: International Adjustment since 1945* (Ithaca: Cornell University Press, 1995), pp. 263–64; Garrett, *Partisan Politics in the Global Economy* (New York: Cambridge University Press, 1998), pp. 1, 5.

⁹ *The Reconstruction of Western Europe, 1945–1951* (Berkeley: University of California Press, 1984), pp. xv, xvi.

In this study I look into specific domestic conditions that made the post-World War II political reconstruction successful and safe for the liberal subsystem at large. By identifying those conditions in a systematic way, this study will be able to shed fresh light on comparative analysis of different time periods of the international liberal subsystem. For example, we would be able to make a better comparison between the gold standard era (1870s–1914), the interwar period (1919–1939), the embedded liberalism years (1945 through the early 1970s), and the globalization era since the 1980s.¹⁰

Especially at a time when so many arguments, empirically strong or weak (or even unfounded), about the impact of globalization on society, economy, and politics within national boundaries have proliferated, in what direction the international liberal subsystem would move is a major research and policy question. My theoretical premise is that given the persistence and resilience of the domestic institutional arrangements for the welfare state (empirical referents of social purpose), the subsystem will be “reembedding” rather than “disembedding” itself. Reembedded liberalism should be distinguished from a mere extension of the postwar settlement partly incongruent with changes under way in industrial structure, employment patterns, and labor-management conflict resolution mechanisms.¹¹ It would be a more market-friendly system, especially favorable to international capital flows, but qualified with a wide variety of social and political buffers. The reembedding option may be available and viable to the extent that social

¹⁰ For a similar attempt, see Daniel Verdier, *Democracy and International Trade: Britain, France, and the United States, 1860–1990* (Princeton: Princeton University Press, 1994).

¹¹ I deliberately avoid considering changes related to the so-often-talked-about business cycles (political or purely economic), and to the relative decline of U.S. hegemony (under bipolarity or not). It is because when those factors are assigned more than a parametric role domestic institutional arrangements (informal and formal) are likely to be slighted.

purpose as a “founding condition” continues to exist as a “maintenance condition” for the liberal subsystem.¹²

At the time of creation, embedded liberalism was far from the product of leftist governments with a common cause of securing workers’ welfare. Indeed, the countries under investigation in this study—Britain, France, West Germany, and the United States—were governed by right-wing, conservative (right-of-center at most) political parties throughout the 1950s, when the institutional arrangements of embedded liberalism were formed and put into practice. With the partial exception of West Germany, the cases selected here did not have any form of tripartite coordination mechanism that was a pivotal component of social democratic regimes. The cases (including the partially exceptional West Germany) during the early years of embedded liberalism were “liberal” democracies with some “social” qualifications.

Here lies one of the empirical puzzles that this study addresses. What allowed the conservative governments of the core participants in the liberal economic subsystem to adopt policy innovations in favor of both international adjustment and domestic compensation? Easy solutions to this puzzle can be found. Extreme disturbance of the subsystem since the Crash of 1929 and its explosion into another great war were a definite factor behind the governments’ motivation to reconcile the then seemingly incompatible goals. However, antecedent experiences alone do not explain why different choices were made under similar circumstances, for example, during the 1920s. Although there were some clear signs of retooling the governance of the domestic economy, and its

¹² The juxtaposition of founding and maintenance conditions is drawn from Charles S. Maier, “Preconditions for Corporatism,” in *Order and Conflict in Contemporary Capitalism*, ed. John H. Goldthorpe (Oxford: Clarendon Press, 1984), p. 50.

connection with more economic openness,¹³ the order of the day in interwar Europe and America was still economic laissez-faire on the basis of the gold standard. On the other hand, scholars employing an ideational mode of explanation would attribute the postwar compromise to the diffusion of economic ideas like Keynesianism.¹⁴ But the tradition of heterodox economic ideas is as long as, and even longer than the one of the orthodoxy. History before 1945 shows no significant efforts made by governments to use domestic heterodoxy of one kind or another as a policy instrument to achieve international economic stability. “Keynesianism before Keynes,” which was closely associated with the regimes of social democratic Sweden, National Socialist Germany, and New Deal America, was a policy tool for strengthening economic nationalism rather than promoting interdependence on mutually beneficial terms. When it is admitted that those policy experiments of the 1930s unmistakably affected the schemes of policy innovation after 1945, the focus should be on the conditions that materialized particular economic ideas, not on the ideas themselves.¹⁵

¹³ Charles S. Maier, *Recasting Bourgeois Europe: Stabilization in France, Germany, and Italy in the Decade after World War I* (Princeton: Princeton University Press, 1975) is a meticulous record of this aspect of the early interwar period, and for an intertemporal version of it, see idem, “The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Western Europe,” *American Historical Review* 86 (1981): 327–52.

¹⁴ Peter A. Hall, ed., *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton: Princeton University Press, 1989); G. John Ikenberry, “A World Economy Restored: Expert Consensus and the Anglo-American Postwar Settlement,” *International Organization* 46 (1992): 289–322.

¹⁵ The ideational approach to international political economy has recently been applied to the spread of neoliberal policy measures since the late 1970s among the advanced industrial nations, as well as many of the developing countries. See, for example, G. John Ikenberry, “The International Spread of Privatization Policies: Inducements, Learning, and Policy Bandwagoning,” in *The Political Economy of Public Sector Reform and Privatization*, ed. Ezra Suleiman and John Waterbury (Boulder, Colo.: Westview Press, 1990), pp. 88–110. Seen from the perspective of this study, the so-called neoliberal resurgence also should be explained by revealing the conditions under which both the domestic and international political economy drifted into a more disembedded direction. I provide a rough account of the process in Chapter 6.

In this study those conditions are reflected in particular values of informal institutional arrangements for working-class accommodation and formal political institutions. Throughout the study, I will focus on how the two levels of institutions interacted with each other to produce different outcomes in the cases selected during the 1950s. Domestic policy innovations for embedded liberalism ranged from *dirigiste* industrial policy in France, to belated Keynesianism in Britain, to the social market economy in West Germany, and to the renewed, “moderate” New Deal in the United States. These differences are also important to understanding why the structure of embedded liberalism was so unstable up to the final breakup of one of its pillars, the gold-dollar standard, in 1971, and despite all that how the basic framework of compromise is still functioning behind the competitive adoption of neoliberal policies that have the effect of increasing economic openness, especially capital mobility, against the leverage of domestic actors.

Embedded liberalism allowed each national government to pursue its own macroeconomic policies (sometimes even microeconomic policies regarding competition) in order to keep social disruption from overflowing into the liberal subsystem itself. This principle of “benign insulation,” however, reduced the degree of international policy coordination that was necessary for the efficient working of the subsystem.¹⁶ Scholars of international political economy, let alone hegemonic stability theorists, would argue that embedded liberalism worked best under U.S. hegemony, that is, during the period of 1945–1971. While not denying the pivotal role played by the United States, this study

¹⁶ The problem of policy coordination and its relation to embedded liberalism has been addressed in Webb, *Political Economy of Policy Coordination*. I agree with Webb when he argues that “the extent of policy coordination in the Bretton Woods years has commonly been exaggerated, whereas since the 1970s it has commonly been underestimated” (pp. ix–x). But his emphasis on the changing structure of the

shows how each major participant in the subsystem contributed to the restabilization of the international economic order. The “unusual” stability of the period has been also explained by a systemic logic of the Cold War. There existed a clear linkage between trade and security in the early postwar years. As Robert Keohane put it: “it might be difficult to prove decisively that [embedded liberalism] resulted principally from institutionalized patterns of interdependence more than from the looming presence of the Soviet Union.”¹⁷ It must be noted, however, that both economic interdependence and security threat from the communist bloc are variables working above the domestic arena.

Instead, this study focuses on the national differences made by social classes and political regimes despite the apparently irresistible, assimilating force of the system. The most intriguing aspect of embedded liberalism is that national policy divergence deriving from different social settings and institutional arrangements constitutes its working principle, although it creates tension and discord within the community of nations that embedded liberalism was designed to serve. This study aims at a historical explanation of the national differences that is informed by theoretical arguments on domestic sources of international economic liberalization, social conflicts and institutional dynamics, domestic rents and trade liberalization.

international economy as the source of increasing policy coordination does not fit well with my stress on domestic institutional configurations.

RESOCIALIZING INSTITUTIONALISM

The existing literature on domestic sources of international economic liberalization has been divided between societal and institutional models. According to societal models, directions of foreign economic policy are determined in large part by the competition over the access to policy process among major social and economic groups. A national political economy is made up of classes and sectors with different interests within both the domestic and international political economy. Since any foreign economic policy produces winners and losers domestically, classes and sectors organize themselves and seek their representation into the political process. This sound notion of societal input becomes more plausible when it is applied to democratic settings rather than nondemocratic ones, for regularly held elections pressure democratic rulers to shape foreign economic policies in a vote-maximizing fashion. However, societal models are likely to take for granted the translation of societal interests and/or preferences into policy and thereby to “black-box” the political process.

The proliferation of institutional analysis for the past decade was a legitimate reaction against societal models’ relative neglect of the autonomous role played by institutional actors, mostly within the government. Political outcomes do not just grow out of societal demands, but need institutional mediation. Collective action by social and economic groups is filtered through a body of rules/procedures and norms/principles set up over time. If “organization [of a social or economic group] is itself a mobilization of bias in

¹⁷ Verdier, *Democracy and International Trade*, chap. 11; Keohane, “International Liberalism Reconsidered,” in *The Economic Limits to Modern Politics*, ed. John Dunn (Cambridge: Cambridge University Press, 1990), p. 184.

preparation for action,”¹⁸ institutions function as a gatekeeper who lets in some biases, but not others. Institutions also have their own interests in forging specific policy outcomes. In a democratic setting, institutions are part of it, but not reduced to the logic of electoral politics. They comprise a wide variety of political actors aside from elected officials. Armed with expertise, information, and knowledge in specific policy areas, those actors represent the weight of structure imposed on societal demands. In other words, institutions screen the policy preferences expressed by social and economic groups and for the very reason likely produce a “path-dependent” outcome.¹⁹

Despite its balancing act with good reason, institutionalism has gone too far in a direction that ignores the contribution of social conflicts to shaping the policy process. Of the two major variants of institutionalism, historical²⁰ and rationalist,²¹ such a *desocializing* tendency seems stronger in the latter. Rationalist institutionalists seek to address the vexing problem of how to apply a systematic analysis to domestic politics in international relations (IR) studies “without resorting to the fuzzy logic of historical

¹⁸ E. E. Schattschneider, *The Semisovereign People: A Realist's View of Democracy in America* (Hinsdale, Ill.: Dryden Press, 1975[1960]), p. 30.

¹⁹ Paul Pierson has elaborated on the notion of path dependency by linking it with the notion of increasing returns in “Increasing Returns, Path Dependence, and the Study of Politics,” *American Political Science Review* 94 (2000): 251–67. Also see G. John Ikenberry, “Liberal Hegemony and the Future of American Postwar Order,” in *International Order and the Future of World Politics*, ed. T. V. Paul and John A. Hall (Cambridge: Cambridge University Press, 1999), pp. 136–39.

²⁰ Examples are: G. John Ikenberry, “Conclusion: An Institutional Approach to American Foreign Economic Policy,” *International Organization* 42 (1988): 219–43; Sven Steinmo, Kathleen Thelen, and Frank Longstreth, eds., *Structuring Politics: Historical Institutionalism in Comparative Politics* (New York: Cambridge University Press, 1992); Cynthia A. Hody, *The Politics of Trade: American Political Development and American Economic Policy* (Hanover, N.H.: University Press of New England, 1996).

²¹ Examples are: Helen V. Milner, *Interests, Institutions, and Information: Domestic Politics and International Relations* (Princeton: Princeton University Press, 1997); Lisa L. Martin, *Democratic Commitments: Legislatures and International Cooperation* (Princeton: Princeton University Press, 2000).

institutionalism.”²² In order to achieve the dual goal, rationalists bring in the notion of “strategic interaction” within the context of “noncooperative game theory.” Policy outcomes are viewed as growing out of individual preferences expressed in a situation of strategic interaction. Here I do not imply that methodological individualism inherent in the game-theoretical tools is responsible for the desocializing tendency of rationalist institutionalism. Departure from the social world occurs when rationalists pursue rigor at the expense of relevance, especially to the institutional dynamics of the real world, what I here call “informal institutions.”

The rationalist literature on institutional factors in IR studies has been dedicated to borrowing analytical concepts from the field of American politics (e.g., divided versus unified government), and of comparative politics (e.g., parliamentary versus presidential systems or majoritarian versus proportional representation) to solve the puzzles around international cooperation.²³ As such those efforts were successful in avoiding the functionalist trap of the societal explanation. More important is that in so doing rationalist institutionalists have been able to bring to our attention subtler, but often more crucial to our understanding of the domestic-international dynamics, differences within democratic settings. Democracy is not a monolithic regime type as opposed to equally monolithic autocracy, but rather is composed of different institutional mixes. Institutionalists made

²² Helen V. Milner, “Rationalizing Politics: The Emerging Synthesis of International, American, and Comparative Politics,” *International Organization* 52 (1998): 767; Geoffrey Garrett and Peter Lange, “Internationalization, Institutions and Political Change,” *International Organization* 49 (1995): 629.

²³ Examples are: Sharyn O’Halloran, *Politics, Process, and American Trade Policy* (Ann Arbor: University of Michigan Press, 1994); Milner, *Interests, Institutions, and Information*; Ronald Rogowski, “Trade and the Variety of Democratic Institutions,” *International Organization* 41 (1987): 203–23.

clear that democracy is a “continuous” rather than “discrete” variable.²⁴ This study takes such a view of democracy at the core of its explanatory model.

But rationalist account of institutional factors is skewed toward formal political institutions such as the form of government, power structure, electoral systems, party systems etc. There is scant attention given to informal institutions such as labor market regulation, antitrust initiatives, except when those moves are “uploaded” into the legislative arena, or “downloaded” directly from governmental agencies. One could dismiss my complaint by saying that most informal institutions are not so different from the organized expressions of societal interests, which must go through formal institutions to materialize into desired policies. This counterargument makes sense because some of the societal explanations fail to distinguish organized social interests/preferences from informal institutions.

Unlike some of the earlier societal explanations, I specify the location of informal institutions by putting them between formal political institutions and organized social interests/preferences. Informal institutions are an arena in which social and economic groups compete over the access to the policy process and/or cooperate to achieve more mutual gains (so-called public goods) from the incumbents of formal institutions. Description of what kind of informal institutions worked and how they did will be a major task in this study, because informal institutions are the very site of strategic interaction among social and economic groups. Explanation of how informal and formal institutions interact to produce policy outcomes is a more important task, but my point

²⁴ Chava Frankfort-Nachmias and David Nachmias, *Research Methods in the Social Sciences*, 5th ed. (New York: St. Martin’s Press, 1996), p. 58.

here is that stressing the role of formal institutions without a proper understanding of informal ones can be misleading rather than illuminating.

Jack Knight provides a useful distinction between two ways of institutionalization: “The logic of informal institutionalization is to constrain the actions of others through our own commitments. The logic of formal institutionalization is to constrain the actions of others through the actions of a third party.”²⁵ Two examples of informal institutionalization, in the sense that Knight has understood, can be found in the creation of the Federal Reserve system and of the Bank for International Settlements by private bankers.²⁶ As in the case of the Federal Reserve system, some informal institutions are formalized over the course of their working. Despite the blurring of the border between the two, informal institutions deserve separate treatment because their presence indicates the social embeddedness of policy outcomes.

In this study, the mode of working-class accommodation is an empirical referent of informal institutions discussed above. To avoid repeating beggar-thy-neighbor economic policies without sacrificing domestic demands, each major participant in the liberal subsystem had to work out its own political-economic regime where conflicting interests entered into a pact, with or without the mediation of government. This study does not assume that embedded liberalism was a product of concerted policy innovation by the governments and social/economic groups within the major industrial nations. Instead of such a voluntaristic view, I see a “joint product” model as fit for a better understanding of

²⁵ *Institutions and Social Conflict* (New York: Cambridge University Press, 1992), p. 188.

²⁶ J. Lawrence Broz, *The International Origins of the Federal Reserve System* (Ithaca: Cornell University Press, 1997); Beth A. Simmons, “Why Innovate? Founding the Bank for International Settlement,” *World Politics* 45 (1993): 361–405.

embedded liberalism. Governments pursue both a private good (domestic stability) and a public good (the liberal subsystem); likewise, social and economic groups seek both a private good (rent maximization) and a public good (capitalist democratic compromise). The inseparability of the production process of private and public goods leads to the convergence between the private and social costs of public goods provision. Strategic actions motivated by individual interests/preferences can result in “positive externalities.”²⁷ This situation resembles what Wolfgang Streeck and Philippe Schmitter called “private interest government” where organized groups’ pursuit of categoric goods of their own is compatible with a collective good for the larger society.²⁸ Thus social/economic groups become parts of a political-economic regime under path-dependent circumstances; governments become components of embedded liberalism as a consequence of noncooperative but iterative games.

To sum up, the desocializing flaw of the rationalist research program can be corrected through close examination of informal institutions as well as formal ones, while retaining the rational kernel of game-theoretical conceptual tools like “strategic interaction in a noncooperative situation.” Feedback between informal and formal institutions can be accounted for better by incorporating some elements of historical institutionalism, e.g., emphasis on “path dependency” of social and political life. Path-dependent properties of institutions are evident. Institutions, both formal and informal, once established, have

²⁷ J. Lawrence Broz, “The Domestic Politics of International Monetary Order: The Gold Standard,” in *Contested Social Orders and International Politics*, ed. David Skidmore (Nashville: Vanderbilt University Press, 1997), pp. 56–59.

²⁸ “Community, Market, State—and Associations? The Prospective Contribution of Interest Governance to Social Order,” in *Private Interest Government: Beyond Market and State*, ed. Streeck and Schmitter (Beverly Hills: Sage, 1985), p. 17.

their own logic of existence and operation. For the insiders of institutions, the stakes of defending their positions and budgets are getting higher and higher over the course of time. Institutions, therefore, are likely to be resistant to change, particularly when it is about rewriting themselves. But except in situations where crisis and political leadership exploiting it coincide, change itself is refracted through institutional structures.²⁹

Change along the trodden path, however, is far from the absence of change. With a focus on “increasing returns,” institutionalists have recently argued that benefits accumulated over the consolidation of institutions exceed at a point of time the anticipated benefits of other policy options. The flip side of the argument is that the costs of switching to other paths continue to rise over time.³⁰ Institutions do not obstruct change, but monitor the process and finally become the medium of change. As Peter Hall argues, “some kinds of institutional configurations may be systematically biased in favor of change.”³¹ Yet at the same time it must be stressed that institution-supported change is most likely when their rules and operating procedures are challenged by social forces. A strong version of institutionalism (mostly historical this time), the once so popular “bring-the-state-back-in” approach, produced the same desocializing effect as did its rationalist

²⁹ Ikenberry, “An Institutional Approach,” pp. 223–26.

³⁰ Pierson, “Increasing Returns, Path Dependence,” p. 252. This logic has also been applied to explaining “intraindustry trade,” an aberration from the conventional Ricardian theory of comparative advantage. Particularly relevant for the purpose of this study is Daniel Verdier, “Democratic Convergence and Free Trade,” *International Studies Quarterly* 42 (1998): 1–24. Intraindustry trade deserves special attention because it is closely related to the standardized mass production system widely shared among major participants in the liberal subsystem.

³¹ “The Movement from Keynesianism to Monetarism: Institutional Analysis and British Economic Policy in the 1970s,” in *Structuring Politics*, ed. Steinmo et al., p. 107.

counterpart by bypassing the level of informal institutions that provide a meeting place for both governmental and societal actors.

From this discussion emerges the theoretical puzzle this study is meant to solve: how to balance societal with institutional mode of explanation, historical with rationalist institutionalism.³² The balancing act is essential to a better understanding of complex, multidimensional phenomena like embedded liberalism. A recent effort at such balancing is what David Skidmore and his collaborators call the “contested social orders” perspective.³³ In the tradition of Ruggie’s “thin” constructivism, the perspective traces national policy differences regarding trade, money and security regimes to different outlooks on what a domestic/international order should be, but without falling back on post-Ruggiean “thick” constructivism whose propositions are often too foggy to falsify. The contributions to *Contested Social Orders and International Politics* have much in common with my project, especially on the point that “nations may be riven by struggles over the social order, domestically and globally.” The very centrality of contestation over the rules of the subsystem and its domestic regimes, however, may limit the applicability of the contested-social-orders approach to when there are at least two alternative principles competing over the governance of the domestic and international political economy.³⁴

³² Elinor Ostrom rightly points out that “much of the work in the historical and rational choice approaches to the study of institutions is complementary” in “New Horizons in Institutional Analysis,” *American Political Science Review* 89 (1995): 175.

³³ Skidmore, ed., *Contested Social Orders*.

³⁴ James H. Nolt, “Conclusion: The Future of Contested Social Orders,” in *Contested Social Orders*, ed. Skidmore, pp. 250–51. For the very reason, the “contested social orders” perspective is more useful when comparing different time periods of the liberal subsystem than when applied to embedded liberalism that is based on the convergence of social purposes.

This self-limitation is not necessary unless only dramatic conflicts between two “interest blocs”³⁵ are seriously considered as the object of study. If such a research project is insisted upon, embedded liberalism should be explained away as a set of preventive measures against the wave of communism. Although I admit that there existed a strong trade-security linkage during the golden age of embedded liberalism, confrontation between two superpowers alone cannot explain the internal dynamics of the postwar settlement. System-wide great power contestation is not directly related to the creation and maintenance of a liberal economic subsystem. The Cold War is taken to be an “antecedent condition”³⁶ in this study.

INSTITUTIONAL CONDITIONS FOR DOMESTICATING EMBEDDED LIBERALISM: LABOR MARKET AND POLITICAL REGIMES

On the dependent variable (DV) side—domestic policy innovation designed for international adjustment, the four countries selected here show significantly different values. Britain adopted an array of Keynesian macroeconomic policies in association with nationalization of key industries, while at the same time trying to “recreate a stable and liberal international commercial and financial order.”³⁷ France worked out a neomercantilist strategy of industrial policy backed by a truly innovative notion of

³⁵ This term, so often used in *Contested Social Orders*, reveals a Gramscian influence on the approach. Although Skidmore and Nolt both carefully distinguish their approach from classical Marxist or Neo-Gramscian perspectives, there remains a danger of fundamentalism that reduces complex, multidimensional social phenomena to “one big question.”

³⁶ Stephen Van Evera, *Guide to Methods for Students of Political Science* (Ithaca: Cornell University Press, 1997), pp. 9–10.

³⁷ Stephen Blank, “Britain: The Politics of Foreign Economic Policy, the Domestic Economy, and the Problem of Pluralistic Stagnation,” *International Organization* 31 (1977): 679.

indicative planning. West Germany successfully combined the social market economy domestically with rapid economic integration into the European market. The United States continued to expand the New Deal apparatuses and finally took the long overdue responsibility of leading the liberal subsystem.

The four countries also made different foreign economic policy choices depending on their positions within the liberal subsystem. The United States shaped the basic framework of the postwar settlement as the “leader” of democratic capitalist countries, and opened up its market to the goods from other participants in the subsystem. Britain accepted the role of “supporter” of U.S. hegemony in the postwar trade and monetary regime, while seeking its traditional policy goals like the strong sterling. West Germany as a defeated nation had to be a “follower” of the basic rules imposed by the United States, but also made considerable policy innovations out of its own institutional resources. France as the most industrially backward nation among the four became an “exploiter” of the subsystem by fostering national champions whose products found an ever-expanding market in the U.S.-financed trade regime.

On the independent variable (IV) side are two dimensions: informal institutional arrangements for working-class accommodation and formal political institutions. The mode of working-class accommodation ranges from *pluralism* to *corporatism*. In one form or another, the four countries formulated and implemented class compromise after the end of the war. The essence of the compromise was the expansion of the welfare state functions that would militate against the negative effect of market forces. This commonality notwithstanding, variations in the institutionalization of class compromise

are crucial to understanding the different policy outcomes of capitalist democratic regimes.

Pluralism refers to a mode of class compromise that is achieved through interest group activities over the access to the policy process. Neither workers nor employers have organizational unity and/or high density. They interact with each other but in a very fragmented, occasional way. The task of relaxing class conflict is often left to government when labor and management fail to strike a deal. As a result, The pattern of conflict resolution is greatly shaped by the power structure and institutional configuration of government.

Corporatism refers to a mode of class compromise that is achieved through informal institutions where labor and employers meet with each other and, in some cases, with governmental agents. This requires that both labor and capital be well organized internally. Corporatism is most likely when peak associations exist and are representative. Labor-management bargaining is regularized and centralized, while the chances of state intervention are little. Class conflict is rarely translated into a political battle between parliamentary representatives of labor and capital.

Formal political institutions are a framework that reshapes the outcomes from societal and informal interactions at the governmental level. Presidentialism versus parliamentarism is a useful distinction, but equally important is the nature of party politics and electoral systems. These dimensions cannot be reduced to an easy counterposition of imperial presidency to parliamentary sovereignty, or of two-party to multiparty system, or of majoritarianism to proportional representation. There is a wide range of institutional mixes beyond presidential two-party system (using majority rule) or

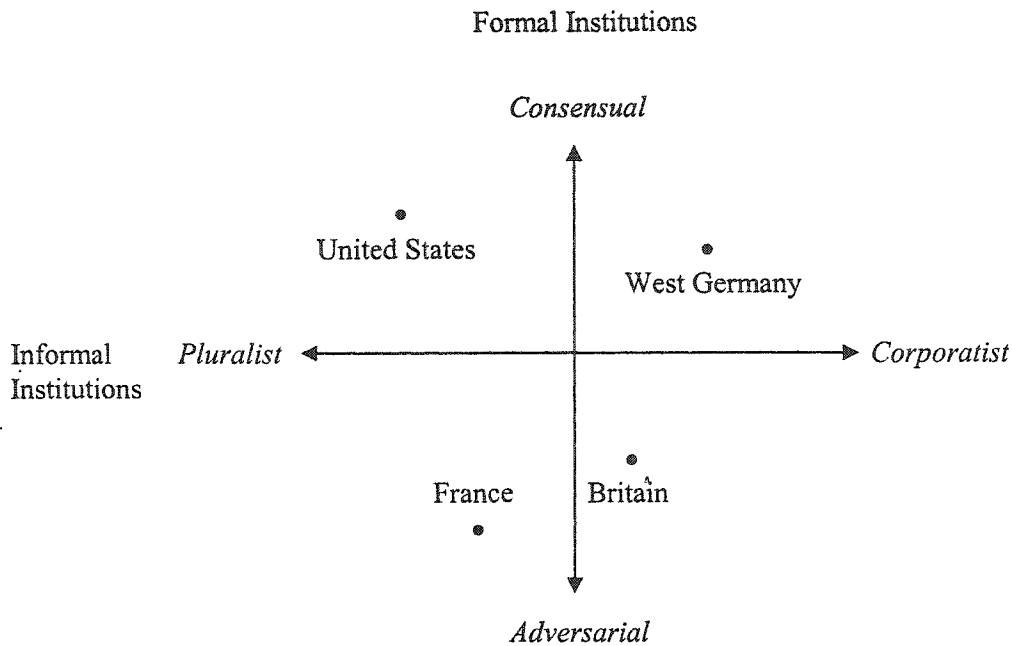
multiparty parliamentarism (using PR). For example, West Germany has a multiparty parliamentary system with an assurance of stability by the strong chancellorship and 5 percent vote threshold, the synergic result of which is close to what we may observe in American presidential democracy.³⁸

Thus I locate the values on formal political institutions of the four countries between two extremes: *consensual* and *adversarial*. Under a consensual political regime, political power is distributed widely across various actors and agencies within the executive and legislature, and along the levels of government. The presence of several power centers reduces the stakes related to specific policy processes, and thus encourages logrolling among representatives of different social and economic interests. Under an adversarial political regime, political power is centralized in the executive, legislative leaders of ruling party or coalition parties, and the bureaucracy to the exclusion of oppositions. The degree of devolution is very limited and the role of central government is great and extensive. The policy stakes are high and thereby creating disincentives to strike a deal among political actors.

From different combinations of values on these two IVs is derived a 2×2 typology, in which policy choices made by the four countries in order to “make embedded liberalism work” can be located as shown in Figure 1.1.

³⁸ For a comprehensive discussion of those institutional configurations, see Arend Lijphart, *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-One Countries* (New Haven: Yale University Press, 1984); idem, *Electoral Systems and Party Systems: A Study of Twenty-Seven Democracies, 1945–1990* (Oxford: Oxford University Press, 1994); Andrew McLaren Carstairs, *A Short History of Electoral Systems in Western Europe* (London: George Allen & Unwin, 1980); Giovanni Sartori, *Comparative Constitutional Engineering: An Inquiry into Structures, Incentives and Outcomes* (London: Macmillan, 1994).

FIGURE 1.1
Mixes of Formal and Informal Institutions



The United States, the then emerging hegemon but with the past of abandoning the subsystem, could renew its New Deal compromise and liberalize its foreign economic policies with the support of both organized labor and the internationalist faction of big business. Relatively free of any militant socialist doctrines, the American labor movement was from the start fragmented and never achieved the degree of centralization that was the norm in many European countries. Instead, the voice of labor could be heard in American politics through a peak association quite insulated from the rank and file and thus closer to an interest group rather than a class organization, the American Federation of Labor-Congress of Industrial Organizations (AFL-CIO). The labor center's influence on policy outcomes could be materialized by its close interaction with the "multinational

bloc” composed of large corporate enterprises with great European interests.³⁹ Informal interactions between big business and central labor organizations were not guaranteed by the federal government, but took place within the rules set by the federal court and agencies. The renewal of the Reciprocal Trade Agreements Act (RTAA) was inseparable from the extension of the New Deal compromise regarding social policy, which was complemented by welfare capitalism practices at the company level. Strong presidency and bipartisan consensus on the need to build a new liberal subsystem on sustained U.S. economic growth was formal institutional arrangements behind the American postwar settlement.

Britain, now a great power that lost hegemony, pursued a difficult policy mix of domestic Keynesianization and international liberalization. As the second author of the Bretton Woods regime, Britain put a greater emphasis on liberalization, while the first author, the United States, gave priority to the stability of the subsystem. Even after experiencing the interwar collapse, the traditional “banker’s” worldview of the British policymakers was not replaced by “business” outlook.⁴⁰ The problem worsened because Britain belatedly engaged in the policy innovations inspired by Keynes only after an extensive program of nationalizations and physical controls was implemented. Keynesian policy ideas were widely shared among the major participants in the liberal subsystem, but their applications greatly differed. Nationalization measures were taken in France,

³⁹ Thomas Ferguson, “From Normalcy to New Deal: Industrial Structure, Party Competition, and American Public Policy in the Great Depression,” *International Organization* 38 (1984): 41–94; Peter Donohue, “Free Trade Unions and the State: Trade Liberalization’s Endorsement by the AFL-CIO, 1943–1962,” *Research in Political Economy*, ed. Paul Zarembka (Greenwich, Conn.: JAI Press, 1992), 13: 1–73.

⁴⁰ Peter J. Katzenstein, “Conclusion: Domestic Structures and Strategies of Foreign Economic Policy,” *International Organization* 31 (1977): 893.

too, but its impact was not greater than that of planning. When compared to the United States and West Germany where Keynesianism never compromised the private ownership of major industries, the peculiarity of the British choice stands out.

This peculiarity can be explained by unstable corporatist bargaining and its direct connection to party politics; and unified government guaranteed by the Westminster system. Faced with the high tide of working-class radicalism immediately after the end of the war, the Labour government had to nationalize “the Bank of England; the telecommunications concern, Cable and Wireless; the British Overseas Airways Corporation; the railways; the remainder of the electricity sector; the coal and gas industries; most large trucking concerns; and the iron and steel industry.”⁴¹ Such an extensive nationalization was, however, not accompanied by a corresponding degree of institutionalization of labor-management relations. The task of moderating class conflict was often left to two major parties that engaged in close competition on the electoral market. Both the Conservatives and Labour understood that extension of welfare state through tripartite mechanisms was the best option for themselves, while realizing the high costs of alienating their core constituencies. Parties and interests were “mutual hostages” to each other.

Furthermore, domestic policy changes toward full employment and welfare state did not lead to any type of illiberal foreign economic policy. Instead, Labour leaders shared with the Conservatives the belief in the strong pound and free trade. That is why the definitely leftward shift in the domestic political economy could be retained by the

⁴¹ Peter A. Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986), p. 70.

subsequent Conservative government throughout the 1950s. Organized labor did not bother to interrupt the pact agreed upon between their political agent and the Conservatives so long as both full employment and social services were assured. Such class compromise was typical of “a life on the Phillips Curve” and became a chief source of the British disease, “stop-go” cycles.

France shows a transitional case where the long duration of both relatively stagnant economy and the century-old “republican synthesis” generated a strong need for the reshaping of the economy and polity. Initially aroused by de Gaulle, the national drive toward state-led economic rationalization became institutionalized through the technocratic engineering of reformers like Monnet. Nationalization of key industries was pressed for by the Communist party that had renewed its base of support through the Résistance. Nationalized sectors included the Bank of France, several private banks; the gas, electricity, and coal industries; Air France and most of the largest insurance firms.⁴² Along with the nationalizations social welfare programs were expanded. This leftward drive did not last long, however. The “modernization alliance” of administrative elites and some business groups made a right turn toward revitalizing French capitalism through “indicative planning.”⁴³ Although the planning commission included trade unionists, together with industrialists, that organization was far from a corporatist tripartite meeting place. Rather, it was a national body designed to extract cooperation

⁴² Ibid., pp. 139–40.

⁴³ A standard discussion of the term may be found in Stephen S. Cohen, *Modern Capitalist Planning: The French Model* (London: Weidenfeld & Nicolson, 1969), chap. 1.

from major societal groups, especially industrialists in the absence of informal institutions at the subgovernmental level.

Like in the United States, informal institutional arrangements for working-class accommodation were pluralistic in France. But the country did not have any type of quasi-corporatist mechanism that can be found in America under the New Deal and Fair Deal. Union density was high, but union coverage was low because peak associations of labor were deeply divided into Communist, Socialist, and Catholicist affiliations. Nor did the business community wield unified organizational power towards the polity. The French postwar class compromise was “little more than a heightened form of pluralism.”⁴⁴ Instead, France had one institutional resource that the other three countries had never enjoyed before and/or since; the tradition of direct state intervention into the economy. Industrial enterprises were screened and selected by the state into “national champions.” This active employment of industrial policy greatly contributed to rapid and sustained economic growth during the 1950s, as long as confrontational labor-management relations did not break out into the political arena. The unstable parliamentary system under the Fourth Republic failed to accommodate working-class demands within the institutional bounds, and finally in the face of the Algerian crisis succumbed to de Gaulle’s “delegative” solution. While being politically unstable, however, the Fourth Republic laid the foundation for state-driven industrial policy as a way of exploiting the U.S.-led liberal subsystem.

⁴⁴ Richard F. Kuisel, *Capitalism and the State in Modern France: Renovation and Economic Management in the Twentieth Century* (New York: Cambridge University Press, 1981), p. 259.

Germany's postwar settlement was a remarkable turning point in its history but deeply embedded in the mode of working-class accommodation and political institutions inherited—albeit with some modifications—from the Wilhelmine and Weimar era. German industrialists had been retaining the practice of close cooperation among themselves since the Wilhelmine period. The strong sense of business community matched with the reformist, electorally oriented working-class organizations that were also the legacy of the Bismarckian anti-Socialist state actions.⁴⁵ Pure socialism and militancy of German organized labor had been violently destroyed by the Nazi regime, and the result was greater room for class compromise between two equally well-organized groups free of extremist components. The Christian Democratic leadership formulated and pursued the doctrine of the social market economy that was an equivalent of Keynesianism, but never the same. Rather, it was closer to economic orthodoxy supplemented with social-welfare programs within the informal institutions, neither the state nor the market.

In terms of political institutions, West Germany had “presidentialism within parliamentarism” by introducing a more active role for the *Kanzler* well before de Gaulle presidentialized French parliamentary democracy in 1958. The defeat in the war and occupation gave the nation an extraordinary opportunity to remake the multiparty system in a direction of virtual two-party system. The Christian Democratic hegemony during the 1950s motivated the Social Democrats to make a historic turn to catch-all party strategies. The intensifying Cold War greatly contributed to this process that finally saw the ban of

⁴⁵ Jürgen Kocka, “Problems of Working-Class Formation in Germany: The Early Years, 1800–1875,” in *Working-Class Formation: Nineteenth-Century Patterns in Western Europe and the United States*, ed. Ira Katznelson and Aristide R. Zolberg (Princeton: Princeton University Press, 1986), p. 291.

the Communist party in 1956. The waning of ideological oppositions within the polity as well as society provided the country with the best environment for practicing the “politics of productivity.” In this sense, postwar Germany created a political economy closest to the American model among the European countries.

With these explanations in mind, my arguments can be summarized into four points:

- The creation and maintenance of embedded liberalism as the postwar international economic subsystem was made possible through the convergence of social purpose among the major participants in it.
- Convergence of social purpose was delimited by nationally specific forms of class compromise within the informal institutional arrangements as well as formal institutional configurations.
- The increasing divergence of national institutional mixes generated more tension between national macroeconomic autonomy and the rules and procedures of the liberal subsystem.
- The subsystemic tension could be managed through policy coordination, rather than convergence, on the part of national governments, sometimes using multilateral institutions, only on the condition that social purpose remained the same among the liberal participants.

ALTERNATIVE EXPLANATIONS

Although there have been so many references to embedded liberalism since Ruggie’s seminal paper appeared, the question of exactly how the postwar settlement was made possible was scarcely raised. In most works, embedded liberalism has been treated as a starting point from which a new trade and monetary regime originated. Scholarly attention was given either to the “intergovernmental” negotiation that shaped and determined the rules and procedures of such institutional tools as the GATT and the

International Monetary Fund (IMF)⁴⁶ or to the causes of decline of embedded liberalism since the early 1970s.⁴⁷ In contrast to political scientists' relative neglect of the conditions that "made embedded liberalism work," historians have produced a rich literature on the subject.⁴⁸ In this study, I wish to combine historical richness with theoretical explanations that have been suggested in the previous section. For it is theoretical explanation that matters to the student of political science, other possible explanations are important to improving my approach.

Hegemonic stability theory. According to this view, embedded liberalism is nothing but a regime characteristic of the early postwar years, that is, the period of unchallenged U.S. hegemony. Embedded liberalism's two pillars, national macroeconomic autonomy and freer trade, were made possible only through the financing of the United States in the form of the gold-dollar standard. Domestic sources of the postwar settlement are overshadowed by the distribution of power within the international system. With the relative decline of U.S. power, therefore, embedded liberalism is doomed to collapse. A recent critique of hegemonic stability thesis has argued that "the idea of embedded liberalism is still viable for some states and under some conditions." In contrast to hegemonic stability thesis, the U.S. ability to impose its will on major participants in the

⁴⁶ John S. Odell, "From London to Bretton Woods: Sources of Change in Bargaining Strategies and Outcomes," *Journal of Public Policy* 8 (1988): 287–315; Ikenberry, "A World Economy Restored"; Milner, *Interests, Institutions, and Information*, pp. 135–57.

⁴⁷ Joanne Gowa, *Closing the Gold Window: Domestic Politics and the End of Bretton Woods* (Ithaca: Cornell University Press, 1983); Robert O. Keohane, "The World Political Economy and the Crisis of Embedded Liberalism," in *Order and Conflict in Contemporary Capitalism*, ed. John H. Goldthorpe (Oxford: Clarendon Press, 1984), pp. 15–38.

⁴⁸ The best example would be the works of Maier. See "The Politics of Productivity: Foundations of American International Economic Policy after World War II," *International Organization* 31 (1977): 607–33 and "The Two Postwar Eras."

liberal subsystem was limited even during the 1950s and 1960s.⁴⁹ This study redresses the weakness of “power-based” theories by drawing on “social purposes” of national political economies and their institutional arrangements.

Trade-security linkage. Even if the policy divergence under U.S. hegemony is recognized by hegemonic stability theorists, the problem of why such divergence was possible can be explained by a factor other than domestic sources: an internally pacifying effect of the Cold War. The presence of the Soviet bloc with a “qualitatively” different model of economy and polity pressured the United States to accept the policy divergence among the Western allies as the price of keeping the capitalist bloc safe.⁵⁰ This line of argument is very plausible, and needs to be elaborated.⁵¹ Perhaps the most parsimonious account of embedded liberalism would be a mix of hegemonic stability theory and trade-security linkage argument. But there is another version of the trade-security linkage argument. Daniel Verdier has employed the factor of security concern in explaining the trade policy change within a democratic regime.⁵² Agreeing with Verdier’s point that security concerns affect domestic institutional arrangements, this study limits the role of the Cold War as an antecedent condition, and then incorporates it into the domestic arrangements made by societal and governmental actors.

⁴⁹ Webb, *Political Economy of Policy Coordination*, pp. 252–53, 262–63.

⁵⁰ Stephen D. Krasner, “State Power and the Structure of International Trade,” *World Politics* 28 (1976): 337.

⁵¹ Aside from the economist Charles Kindleberger, the two political scientists, Robert Gilpin and Stephen Krasner who had proposed hegemonic stability theory, did not produce a further study into this point. See the discussion in Michael C. Webb and Stephen D. Krasner, “Hegemonic Stability Theory: An Empirical Assessment,” *Review of International Studies* 15 (1989): 184–85.

⁵² *Democracy and International Trade*, pp. 42–43.

Liberal institutionalism. As far as embedded liberalism is concerned, liberal institutionalists have focused on the institutional aspects of the Bretton Woods regime, especially how states as self-interest maximizers cooperated to rebuild a liberal subsystem. Following Robert Keohane's formulation in *After Hegemony* (1984), liberal institutionalists have agreed that U.S. hegemony and international institutions complement rather than contradict each other. Thus their explanation is eclectic: the rise of embedded liberalism is explained by U.S. hegemony, while its continuation is accounted for by institutional "increasing returns." I do not take issue with such a mix of approaches; rather, this study agrees with them in many points. But there remain two important differences. First, while liberal institutionalists see the state as a unitary actor, this study disaggregates the state into classes, sectors, and regimes. Second, while liberal institutionalists focus on international bargaining and organizations, this study probes into domestic institutional arrangements, both formal and informal.

Economic models. Political scientists have borrowed two simple models from economists in an effort to explain the impact of economic openness on domestic politics played by different economic and social groups. According to the Stolper-Samuelson Theorem and its modified version, the Rogowski model, the postwar alliance between labor and capital in Western Europe is well predicted, when empirical testing is limited to the period before the early 1970s. But they, as Rogowski himself admits, fail to explain the American anomaly of the New Deal free-trading coalition during the first thirty years of the postwar period without resorting to various ad hoc explanations.⁵³

⁵³ *Commerce and Coalitions: How Trade Affects Domestic Political Alignments* (Princeton: Princeton University Press, 1989), pp. 127–28. For a more detailed critique of Rogowski on the postwar period, see

Scholars employing the specific-factors model claim to redress the incompleteness of the perfect factor mobility model without reducing the analytical difference between the two economic models into the difference between the short- and the long-run perspectives, as Rogowski did.⁵⁴ Instead, they look into better data that show changing preferences of classes and sectors in tandem with changing factor mobility. In this way, a recent study has found that trade politics of the postwar period (1945–1994) was characterized by industry rather than class cleavages with the partial exceptions of Sweden and Australia, where factor mobility was high.⁵⁵ Sectoral politics, dominated by industrial lobbying or guided by governmental planning, is bound to be mercurial, just because it is highly responsive to market fluctuations.

Although the specific-factors model successfully incorporates more policy outcomes under one roof, it remains another long-run perspective with regard to the postwar period. Low factor mobility in Britain, France, and the United States during the postwar period is not incompatible with my argument. High sector specificity was an important structural condition for frequent labor-management interactions. But understanding how specific policy outcomes grew out of such interactions requires us to incorporate the dimension of informal and formal institutions.⁵⁶

Paul Midford, "International Trade and Domestic Politics: Improving on Rogowski's Model of Political Alignments," *International Organization* 47 (1993): 537–42.

⁵⁴ *Commerce and Coalitions*, p. 97, n. 16.

⁵⁵ Michael J. Hiscox, "Class versus Industry Cleavages: Inter-Industry Factor Mobility and the Politics of Trade," *International Organization* 55 (2001): 16–34. For an earlier application of sectoral model, see Mark R. Brawley, "Factoral or Sectoral Conflict? Partially Mobile Factors and the Politics of Trade in Imperial Germany," *International Studies Quarterly* 41 (1997): 633–54.

⁵⁶ Hiscox gives priority to societal preferences as opposed to institutional autonomy (or "magic bullet"), and thereby makes an argument closer to my *resocializing* effort, in "The Magic Bullet? The RTAA,

Constructivism. There can be two versions of constructivist account of embedded liberalism. A “thicker” version would posit that embedded liberalism was an outcome of “intersubjective understanding” among societal, governmental, and international actors. Thus it would try to find what kind of ideas motivated actors at different levels to co-produce a system in which domestic stability and international adjustment are reconciled. A “thinner” version would investigate the social conditions of policy innovations that are the core of embedded liberalism on a more empirical basis. “While not denying the importance of structural factors,” soft constructivists try to demonstrate the precedence of ideas over institutional changes.⁵⁷ The latter is much closer to my approach than any other rival explanation in its emphasis on the “social construction of political-economic regimes.” But constructivism, thinner or thicker, is vulnerable to the encroachment of systemic variables such as the Cold War. Social purposes, in their hands, can be simplified into just the two conflicting ideas of socialism versus capitalism, heterodoxy versus orthodoxy, or embedded versus disembedded liberalism.

This study aims at a more historically rich analysis beyond such dualisms. The postwar settlement is more complex a phenomenon than those dualisms would suggest. On the one side there were rightist governments and their business partners (with or without labor representation) who realized the feasibility of pursuing redistributory policies without threatening the basic framework of free enterprise and market economy. On the other side emerged leftist governments and their working-class constituencies (with

Institutional Reform, and Trade Liberalization,” *International Organization* 53 (1999): 669–98. Nonetheless, it is evident that his approach is less sociological than economic.

⁵⁷ Mark Blyth, “The Transformation of the Swedish Model: Economic Ideas, Distributional Conflict, and Institutional Change,” *World Politics* 54 (2001): 1–2.

varying degrees of business presence), equipped with an array of “social institutions” that allowed for both labor quiescence and business confidence and thus made possible sustained growth. The latter cases most of which are small Northern European countries have been the subject of a body of the corporatist literature in which the former cases mostly found in large European countries and the United States have been underrepresented. Rather than apply the corporatist model to large, non-Scandinavian political economies, or, conversely, the pluralist/strategic actor model to political economies other than the United States, I focus on national responses to the emerging international liberal economy within a framework that employs both societal and institutional variables.⁵⁸

CASES AND METHODOLOGY

This study is a comparative analysis of four major participants in the postwar liberal subsystem—Britain, France, West Germany, and the United States—in terms of how each country established its own domestic regime for embedded liberalism during the 1950s. This selection of cases and time period needs two justifications.

⁵⁸ Two lines of research program integrating those two groups of variables can be discerned. One is basically a synthesis of existing economic models that is complemented with domestic political institutional factors; see James E. Alt and Michael J. Gilligan, “The Political Economy of Trading States: Factor Specificity, Collective Action Problems, and Political Institutions,” *Journal of Political Philosophy* 2 (1994): 165–92; James E. Alt, Jeffrey A. Frieden, Michael J. Gilligan, Dani Rodrik, and Ronald Rogowski, “The Politics of International Trade: Enduring Puzzles and an Agenda for Inquiry,” *Comparative Political Studies* 29 (1997): 689–717. The other starts from a combined approach of corporatism and pluralism and suggests various empirical testings of such a synthesis; see Herbert Kitschelt, Peter Lange, Gary Marks, and John D. Stephens, eds., *Continuity and Change in Contemporary Capitalism* (New York: Cambridge University Press, 1999); Torben Iversen, Jonas Pontusson, and David Soskice, eds., *Unions, Employers, and Central Bankers: Macroeconomic Coordination and Institutional Change in Social Market Economies* (New York: Cambridge University Press, 2000).

First, the four cases represent distinctive institutional arrangements for democratic governance that had been consolidated throughout the second half of the nineteenth century and the first half of the twentieth century. France under Napoleon III and, the Second and Third Reichs of Germany are partial exceptions in the formative period for democratic governance. Yet at the same time those autocratic regimes are sources of some institutional arrangements of subsequent democratic regimes in France and West Germany. *Planification* and the *soziale Marktwirtschaft* would have taken very different shapes or even been nonexistent had it not been for the tradition of strong state and the cartelized, but decentralized industrial order,⁵⁹ respectively. This case selection makes possible a more nuanced comparison of the democratic policy process in major industrial nations.

Second, my focus is not on the apparent absence of serious challengers to the liberal subsystem, but on the “inside-the-liberal-community” policy divergence. An outlier, if never a challenger, can be detected. By the beginning of the 1950s social democracy as an “aliberal” solution to economic orthodoxy had become predominant in the Scandinavian countries, while fascism, another aliberal solution, was crossed out.⁶⁰ However, the northern lights were not auroral enough to dazzle the conservative eyes of major participants in the liberal subsystem. It would be more accurate to say that Nordic social democracy belonged to an outer circle of embedded liberalism, often serving as a source

⁵⁹ Gary Herrigel attributes the peculiarity of the German model to the decentralized form of industrial order, in contrast to the conventional view that Germany is a country of “a highly centralized, large-firm-dominated, ultimately neocorporatist industrial system.” *Industrial Constructions: The Sources of German Industrial Power* (New York: Cambridge University Press, 1996), p. 1.

⁶⁰ Gregory M. Luebbert, *Liberalism, Fascism, or Social Democracy: Social Classes and the Political Origins of Regimes in Interwar Europe* (New York: Oxford University Press, 1991), p. 270.

of ideological justification for leftish political forces in the countries under investigation. With this historical picture in mind, it seems natural that the late 1950s and early 1960s produced a sweeping generalization in the form of “end of ideology” or “conversion” thesis. The myth of assimilation or “Endism” has much more widely spread among the liberal community in the predominance of neoliberal policy paradigm and the lack of organized alternatives. The relative persistence of the early postwar order in the small European countries, however, contributed to debunk the myth of assimilation. By focusing on the large states throughout the first wave of Endism, this study is expected to show the importance of national context that is made up of informal and formal institutional arrangements.

This study uses “contextualized comparisons” as a way to look at policy outcomes in the four countries that have both similarities and differences in social and political terms. According to Richard Locke and Kathleen Thelen, this method is better than the conventional “matched-comparison” approach in capturing the “parallels across cases that [are seen] as very different and, conversely, ... significant differences between cases typically seen as most similar.”⁶¹ Industrial policy in France and the New Deal renewal in the United States would seem to need different analytical lens, and indeed have been examined by research programs as remote as comparative political economy of state intervention and rationalist institutionalism on delegation. Keynesianism in Britain and the social market economy in West Germany have also been accounted for by variables as different as policy ideas and hegemonic parties. The conventional method to compare

⁶¹ “Apples and Oranges Revisited: Contextualized Comparisons and the Study of Comparative Labor Politics,” *Politics & Society* 23 (1995): 338.

qualitatively so divergent cases is to narrow down the scope of comparison itself by manipulating the range of value on DVs and IVs. Apples with oranges should be reshuffled into apples with apples. In real business of comparative social science, such a practice leads to the subgrouping of similar cases and as a corollary narrows the scope of comparison.

In contrast, contextualized comparisons allow for a comparative study of seemingly different dimensions of DVs by focusing on the “context” of study variables. Here the context is the need commonly felt by the liberal participants to reconcile domestic stability and international adjustment. The common social purpose delimits the range of policy choices available to social classes and political regimes.

PLAN OF THE CHAPTERS

This study is divided into six chapters. Chapters 2 through 5 comprise the case studies of the United States, Britain, France, and West Germany. Each chapter is made up of six sections that examine: (1) each country’s position within the postwar liberal subsystem and its impact on the pattern of domestic compromise; (2) the process and structure of policy innovations during the immediate postwar years, i.e., the late 1940s; (3) organized labor’s political and economic strategies for securing its share within the evolving welfare state; (4) business community’s political and economic responses to labor and the interventionist state; (5) the nature of political regime (consensual or adversarial) and its relationship to economic policy outcomes; (6) each political economy’s degree of fit with embedded liberalism as an international economic order.

In each chapter, Section 1 should provide a discussion of systemic environment like the Cold War as a contextual variable, while Section 6 a reaffirmation of the thesis that the social contents of the liberal subsystem were determined not by systemic (bipolarity) or subsystemic (distribution of economic power among the liberal participants) factors but by domestic institutional arrangements for intertwined projects such as welfare state, economic growth, and labor peace. Sections 2 through 5 in each chapter, therefore, deal with how organized interests interacted with each other and with policymakers within the institutional parameter set by national history.

Chapter 6 will serve a dual purpose: giving a summary of arguments made in Chapters 2 through 5, while providing empirical grounds (at the domestic level, of course) for anticipating the emergence of reembedded liberalism as an international economic order. This kind of extended conclusion, I think, is necessary, for I embarked on this project in order to assess the extent to which we still live on the institutional templates molded more than half a century ago. In the concluding chapter, therefore, I provide an overview of what has happened to formal and informal institutions for the postwar interventionist welfare state since the 1980s; and evaluate the possibility of international policy coordination in a changing environment.

This study does not aim to reverse the “second image reversed” as a mode of account. I do not deny the impact of systemic variables such as the Cold War, the importance of ideas in shaping policymakers’ outlook, or the role of individuals in pushing for policy innovations. As Peter Gourevitch put it, “We all know about interaction; we all

understand that international politics and domestic structures affect each other.”⁶² Rather, I try to fill the gap in our knowledge of the origins of the postwar international economic order. It must be noted that even Ruggie himself did not provide a full-scale account of embeddedness side of the story, while pointing to the changing international environment for trade and money. The story can be told with more empirical richness through the prism of domestic institutional developments. This study is such an attempt.

⁶² “The Second Image Reversed: The International Sources of Domestic Politics,” *International Organization* 32 (1978): 882.

CHAPTER TWO

Mixing Welfare Capitalism and Welfare State Pluralism and Political Consensus in the United States

LIBERAL LEADERSHIP ON A SOCIAL FOOTING

THE UNITED STATES emerged from World War II as a liberal hegemon willing to rebuild a “club of like-minded states” with an unprecedented concentration of economic and military power. Within the literature of hegemonic stability theory, the coincidence of American willingness and capability to lead the world political economy has been contrasted with the incongruence between the two dimensions of leadership during the interwar years. From the perspective of this study, however, there is a third dimension of leadership: social purpose. Despite the remaining disagreements as to whether or not the United States around the conclusion of the First World War could afford a leadership role, it would be hard to justify the American reluctance to lead only by pointing out its limited state power within the international system as a whole as David Lake did.¹ For this reason, scholars have turned to a more traditional storyline: American preoccupation with domestic affairs, better known as “isolationism.”

Seen in terms of resources available, the United States had had a similar chance after the end of World War I. At that time, internationalist policy ideas within America was inspired by Wilsonian idealism—*cooperation among equals*, not guided by a liberal hegemon. Instead, the international economic order was envisioned as an array of

¹ Lake, *Power, Protection, and Free Trade: International Sources of U.S. Commercial Strategy, 1887–1939* (Ithaca: Cornell University Press, 1988).

institutional arrangements for inducing cooperation. “Financial flows across frontiers were to be managed by central-bank cooperation, orchestrated by the Bank for International Settlements. The League of Nations would supervise economic stabilization and negotiate the removal of barriers to the flow of goods. The International Labor Organization would harmonize conditions of work, remove “unfair competition,” and thereby manage global labor markets.”² This ambitious experiment could not but fail largely because its guiding principle did not embed itself in the domestic order of different participating countries. Britain, the afterglowing hegemon, suffered from working-class resistance when it stuck to the orthodox economic policies. France showed some signs of economic rationalization as early as the 1920s, but had no corresponding social pact. Germany was not an equal partner in the true sense of the word because of its status as a defeated nation and the huge burden of reparations. The United States, as the nation with the greatest leadership potential, did little but to declare, “Do business and politics like we do.” In other words, the interwar liberal subsystem lacked a common social purpose.³

In contrast, the postwar liberal subsystem was based upon a unique combination of U.S. power and a shared social purpose. Major participants put emphasis on domestic compensation for the losses caused by the market forces, external as well as internal. Unlike during the 1920s, the United States assumed the responsibility of providing the

² Harold James, *The End of Globalization: Lessons from the Great Depression* (Cambridge: Harvard University Press, 2000), p. 217.

³ Wilsonian reluctance to use coercive power as a means of policing the subsystem also should be considered. John Ruggie has made an interesting contrast between Wilson and Roosevelt on this point in *Winning the Peace: America and World Order in the New Era* (New York: Columbia University Press, 1996), p. 33.

subsystem with stability by means of economic and military aid. It was provided by the federal government, not by private investors as in the interwar period.⁴

The change came also from the private sector, especially more internationalized, capital-intensive industries. Those businessmen recognized the government's proper role in the economy and were willing to provide their expertise to the federal government. They included even Keynesian businessmen who argued for deficit spending as a way of generating economic recovery. These "New Deal industrialists," unlike their Wall Street colleagues, could live with external capital controls. And unlike the domestically oriented sectors, they provided welcome support to the Marshall Plan that would expand their access to the market in Western Europe.⁵ These reformist entrepreneurs realized the function of organized labor within the workplace as a gatekeeper of industrial peace. The quasi-corporatist outlook of reformist businessmen was matched by voluntarism and business unionism of the American labor movement. Labor leaders respected the "right to manage" of entrepreneurs to the extent that they were assured job security and price stability, which were essential to the economic security of workers. More important, organized labor did not turn directly to political parties in order to get its voice as a *class* heard in the arena of national politics. Instead, it acted more like an *interest group* that had a greater stake than any other in the mix of welfare state and welfare capitalism.

⁴ Charles S. Maier, "The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Western Europe," *American Historical Review* 86 (1981): 341. Robert A. Pollard and Samuel F. Wells, Jr., "1945–1960: The Era of American Economic Hegemony," in *Economics and World Power: An Assessment of American Diplomacy Since 1789*, ed. William H. Becker and Samuel F. Wells, Jr. (New York: Columbia University Press, 1984), p. 334. Also see Beth A. Simmons, "Why Innovate? Founding the Bank for International Settlement," *World Politics* 45 (1993): 361–405.

⁵ Robert M. Collins, *The Business Response to Keynes, 1929–1964* (New York: Columbia University Press, 1981), p. 56; Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca: Cornell University Press, 1994), p. 63.

This domestic development was projected into the final assumption of the long overdue leadership role in the international liberal economic subsystem. The United States underwrote the provision of a stable international monetary and free trading system by leading the establishment of the International Monetary Fund (IMF) and the World Bank. In a close consultation with Britain, the Bretton Woods regime was created to produce rules and procedures for an open, multinational structure of trade and money. International liquidity needed to implement the dual task was guaranteed by the American commitment to a virtual “dollar standard.” By allowing other liberal participants to adjust exchange rates to the fixed value of the dollar, the United States provided their domestic economies with a cushion against the strictures of the balance of payments. This benign hegemonic action had an effect of “facilitat[ing] the outflow of American capital abroad” and helped boost the reconstruction of war-torn Europe.⁶

The onset of the Cold War, of course, was crucial in the U.S. policy shift in Western Europe and elsewhere in the world. Searches for cooperation with the Soviet Union were cancelled from around 1947 onwards. In most of Western European countries, Washington supported the establishment of center-left or center-right coalition governments to the exclusion of Communists. Deradicalized, reformist regimes were the best choice for the Americans in a new Europe; and the pattern was reproduced in the arena of labor politics, too. Communist-affiliated trade unions were ostracized from the “legitimate” labor movement. Although the political consequence of ghettoizing the

⁶ Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton: Princeton University Press, 1996), p. 97; Ruggie, *Winning the Peace*, p. 37; Mark R. Brawley, *Liberal Leadership: Great Powers and Their Challengers in Peace and War* (Ithaca: Cornell University Press, 1993), p. 184.

Communists varied from country to country, a series of geopolitical developments during the late 1940s delineated the ideological boundary of the domestic class compromise. But no more, no less; for the purpose of this study, I do not extend the focus on the Cold War beyond this point.

In this chapter, I examine the institutional process, both informal and formal, of embedding liberalism in the United States by focusing on how policymaking elites, business community, and labor leaders interacted with each other. Although the American case has been so densely studied in terms of postwar settlement, those studies were concentrated on the immediate postwar years that included most of the bridging points between the New Deal and Fair Deal. Some authors have established good arguments on the warfare state-welfare state nexus.⁷ At the same time, those studies are linked to the larger literature that stresses the broad similarity of national experiences in state intervention in the “management of prosperity” and corporatist interest intermediation.⁸ As I will argue in the other three country chapters, postwar settlement and its institutionalization had as many national variations as cross-national commonalities. The American case is a good example that shows how a political economy without a solid class base could refashion itself in a class-compromise direction.

⁷ For example, see Bartholomew H. Sparrow, *From the Outside In: World War II and the American State* (Princeton: Princeton University Press, 1996) and Jytte Klausen, *War and Welfare: Europe and the United States, 1945 to the Present* (New York: St. Martin's Press, 1998).

⁸ Pioneered by Andrew Shonfield, the literature stresses such symptoms of a postwar political economy as the expanded role of the state in the economy and the blurring of the public and private sector, which can be observed across the advanced industrial countries. See Shonfield, *Modern Capitalism: The Changing Balance of Private and Public Power* (Oxford: Oxford University Press, 1965), p. 65.

MAKING A DEAL FAIR FOR THE "VITAL CENTER":
THE LEGACY OF THE TRUMAN COMPROMISE

Before examining the American political economy of the 1950s, it would be in order to review the groundwork laid by the Truman administration from the mid- to late 1940s. The Truman era is all the more important because it stood between the Roosevelt's New Deal and a Republican administration that was supposed to roll back most of the New Deal programs. Although Roosevelt had tried to make his conservative enemies complacent about the destruction of the New Deal agencies by saying, "Dr. Win the War had replaced Dr. New Deal,"⁹ the war at home was not over yet. Roosevelt's political experiment left a wide range of reform agendas, domestic and foreign, to the successor whose career as a reformist politician had been very obscure. While "breaking with orthodoxy" was not completed yet, the Truman administration was overwhelmed by the societal pressure to "return to normal." But then, how to define "normalcy" was the core of the conflict around the postwar reconversion.

The conflict was intense especially because of a symmetrical structure of social forces: *big labor and big business confronting each other*. Through the legislation such as the Wagner Act of 1935, Roosevelt's second New Deal regime opened the way to big labor for the first time in American history. As a result of the organizing drive after the passage of the Wagner Act, the two labor federations, the American Federation of Labor (AFL) and the Congress of Industrial Organizations (CIO), represented the bulk of the working force. On the business side, the second New Deal coalition was based on the further

⁹ Barry D. Karl, *The Uneasy State: The United States from 1915 to 1945* (Chicago: University of Chicago Press, 1983), p. 221.

monopolization of capital-intensive industries in general, not just internationally oriented sectors.¹⁰ The total war effort stepped up the pace of industrial concentration during the rest of the Roosevelt era. This simultaneous growth of both organized labor and large industry did not lead to a corresponding degree of class conflict because the imperative of wartime mobilization took the issue of monopoly out of the agenda. War abroad kept war at home to a minimum. Instead, the “politics of productivity” prevailed.¹¹

With the end of the war, internal fighting over the shape of the domestic political economy resumed. When President Truman said in December 1945, “Peace is hell,” he did not exaggerate the immediate postwar situation at all. The no-strike pledge made in December 1941 in the wake of Pearl Harbor was terminated by organized labor. Toward the end of the war the CIO proposed a 20 or 30 percent wage increase as a compensation for the forgone overtime pay. At the same time it wanted to preserve the machinery of New Deal corporatism as the best means to advance labor’s rights in the very process of production. Attack on FDR’s wartime “cooperative” corporatism came also from the business community. It would be safe to say that the business attack was more severe than the one from labor because the second New Deal explicitly campaigned against big business in favor of a “motley crew” of new Democratic voters. Even the relatively liberal Twentieth Century Fund criticized unions for serving themselves at the expense of public

¹⁰ The first New Deal package included the legalization of industrial cartels. Thomas Ferguson, “From Normalcy to New Deal: Industrial Structure, Party Competition, and American Public Policy in the Great Depression,” *International Organization* 38 (1984): 42. Even the second New Deal had to relax its antitrust policy in exchange for the support of internationally oriented sectors. Michael Lutz, *Risking Free Trade: The Politics of Trade in Britain, Canada, Mexico, and the United States* (Pittsburg: University of Pittsburg Press, 1996), p. 66. For an early survey of the subject, see Ellis W. Hawley, *The New Deal and the Problem of Monopoly: A Study in Economic Ambivalence* (Princeton: Princeton University Press, 1966).

¹¹ Charles S. Maier, “The Politics of Productivity: Foundations of American International Economic Policy after World War II,” *International Organization* 31 (1977): 617–18.

interest as early as 1944. Lib-Labism in America could exist only on the condition that workers “produce and produce again.”¹²

The Taft-Hartley Act of 1947 represented the nature of the business counterattack. Officially known as the Labor-Management Relations Act, it was designed to protect managerial rights from labor’s encroachment and passed over Truman’s veto. Denounced by organized labor as a “slave labor law,” the act “weakened the NLRB by splitting it administratively and subjecting its rulings to greater judicial review; it granted employers additional rights while rendering a number of union practices illegal; it diluted union security by banning the closed shop, placing restraints on the establishment of union shops, and allowing states to eliminate all forms of union security (Section 14b); it reestablished the right of federal courts to issue antistrike injunctions, in effect amending the Norris-LaGuardia Act; and it authorized the president to declare certain industrial disputes to be national emergencies and, on the basis, curtail the right to strike.”¹³ Employers’ counterattack intensified also with the “right-to-work” legislation in eighteen states.

Resurgence of business hostility toward labor after wartime collaboration was not new. We can see the same sequence in the years after the end of World War I. There is, however, a crucial difference between the two postwar experiences, and the New Deal

¹² Sparrow, *From the Outside In*, p. 67; Arthur F. McClure, *The Truman Administration and the Problems of Postwar Labor, 1945–1948* (Rutherford, N.J.: Fairleigh Dickinson University Press, 1969), pp. 27, 47; Christopher L. Tomlins, *The State and the Unions: Labor Relations, Law, and the Organized Labor Movement in America, 1880–1960* (New York: Cambridge University Press, 1985), p. 318; Nelson Lichtenstein, “Labor in the Truman Era: Origins of the ‘Private Welfare State,’” in *The Truman Presidency*, ed. Michael J. Lacey (New York: Cambridge University Press, 1989), pp. 134–35.

¹³ Melvyn Dubofsky, *The State and Labor in Modern America* (Chapel Hill: University of North Carolina Press, 1994), p. 204.

made that difference. While the Wilson administration's accommodationist labor policy was followed without great difficulty by Hooverite economic orthodoxy, Roosevelt's labor policy reforms could not be easily and entirely dismantled. FDR's reforms completed the process of creating the "Yankee Leviathan" and aggrandized the body of its beneficiaries.¹⁴

Truman himself was not a pure and simple New Dealer. He was a child of southern Democratic machine politics personified in the father figure of Thomas Pendergast. Truman joined New Deal Democrats in 1934 because doing so was the best way to be a national politician. The New Deal period was little more than one of the milestones on "Truman's path to power." Although Roosevelt himself was far from a cordial friend of organized labor, Truman did not even inherit his predecessor's political knack to deal with labor leaders as part of the "power elite" and the rank and file as individual voters. He was chosen as Roosevelt's running mate because he seemed able to get along with different factions within the Democratic party. Truman's "commitment to people not doctrine" was evident when he appointed both conservatives and liberals in his cabinet. As a result, the administration itself was divided over domestic economic policy issues.¹⁵

The Cold War, whether domestically or externally driven, was a breakthrough for solving the postwar gridlock. The perceived threat of Soviet expansionism allowed Democrats and Republicans to exchange their second priority issues for the first priority

¹⁴ Richard Franklin Bensel, *Yankee Leviathan: The Origins of Central State Authority in America, 1859–1877* (New York: Cambridge University Press, 1990); Stephen Skowronek, *Building a New American State: The Expansion of National Administrative Capacities, 1877–1920* (New York: Cambridge University Press, 1982).

¹⁵ Richard S. Kirkendall, "Truman's Path to Power," in *Harry S. Truman and the Fair Deal*, ed. Alonzo L. Hamby (Lexington, Mass.: D. C. Heath & Co., 1974), p. 6; idem, *A Global Power: America since the Age of Roosevelt*, 2nd ed. (New York: Alfred A. Knopf, 1980), pp. 29–30.

ones. While the executive wing of the Democrats retained its international commitment, Republicans closely tied to domestically oriented industries could prevent the extension of labor and social welfare programs beyond the New Deal. This was a new compromise made by what Arthur M. Schlesinger, Jr. had called the “vital center.”¹⁶ The outbreak of the Korean War finally led Truman to give priority to “uninterrupted industrial production” over other policy considerations. The conflict in the Far East aborted Fair Deal proposals such as the repeal of the Taft-Hartley Act, the reorganization of the National Labor Relations Board (NLRB), national health insurance, the Brannan agricultural plan, and aid to small businesses.¹⁷

The Cold War also had the effect of purifying the American labor movement ideologically. By late 1948 the anti-communist majority of the CIO had begun frontal attacks on left-led unions; and in 1949–1950 a total of eleven unions were expelled from the federation. They were, in the words of Walter Reuther, “not trade unionists, they are colonial agents of a foreign government using the trade unions as an operating base.” In May 1949 the CIO also withdrew from the World Federation of Trade Unions (WFTU) on the grounds that it refused to endorse the Marshall Plan. Opposing an American vision of European reconstruction, it was considered a fellow traveler of international communism by U.S. labor leaders. At the same time the CIO and the AFL, along with

¹⁶ Benjamin O. Fordham, *Building the Cold War Consensus: The Political Economy of U.S. National Security Policy, 1949–51* (Ann Arbor: University of Michigan Press, 1998), pp. 9–10; for a more detailed account, see chap. 5. On the policy ideas of the “vital center,” see Alonzo L. Hamby, “The Vital Center, the Fair Deal, and the Quest for a Liberal Political Economy,” *American Historical Review* 77 (1972): 653–78.

¹⁷ Gilbert J. Gall, *The Politics of Right to Work: The Labor Federations as Special Interests, 1943–1979* (Westport, Conn.: Greenwood Press, 1988), p. 57; Sparrow, *From the Outside In*, p. 78.

their French and British counterparts, agreed to found a new non-Communist international labor federation.¹⁸

Although the red scare within the labor movement was a transatlantic, even global, phenomenon after the end of World War II, the consequence for the domestic political economy varied from country to country. In West Germany, the purge of the Communist-dominated unions was conducted under the hegemony of the reformist labor movement and contributed to the stabilization of cooperative industrial relations and the Christian Democratic regime. By contrast, in France where the Résistance gave the Communists political legitimacy and as a result the Socialists were enfeebled, anti-communist drives after 1947 only widened the already existing cleavages between “ideologically” competing labor federations and impeded class compromise at the informal level. American labor had neither such a close (to be more exact, “organic”) connection to a working-class party as had existed in West European countries nor social democratic hegemony. Deradicalization of the labor movement in the American context was associated more with the institutionalization of welfare capitalism. In sum, the apparently imposing role of the Cold War as a systemic variable must be understood as a parameter within which domestic actors and institutions engaged in the existing contestation over the policy process. “The Cold War did not, in itself, determine the logic of the international system for domestic stability.”¹⁹

¹⁸ Mary Sperling McAuliffe, *Crisis on the Left: Cold War Politics and American Liberals, 1947–1954* (Amherst: University of Massachusetts Press, 1978), pp. 53–58; Robert H. Zieger, *The CIO, 1935–1955* (Chapel Hill: University of North Carolina Press, 1995), pp. 277, 292; Maier, “Politics of Productivity,” p. 636.

¹⁹ Maier, “Two Postwar Eras,” p. 348.

Due to its prewar and even pre-Depression experience with welfare capitalism,²⁰ American labor was *proactive* rather than *reactive* in its approach to the postwar rearrangement of industrial relations. A case in point is Walther Reuther's 100-year plan presented to Truman. "We must meet the challenge of Communism," the right-wing social democrat of the United Automobile Workers (UAW) appealed, "not by pious slogans about democracy's virtues, but by a positive program of social action." Democratic unionism would repel the specter of illegitimate leftism and open the pathway to liberal capitalism. For Reuther, liberal capitalism combined with democratic unionism would be a model for the world. "[T]he people of many nations ... are looking at the promise of individual reward that has stimulated American invention and business enterprise; at American technical progress which has performed miracles of mass production; at American workers free to organize, to bargain collectively with their employers, to choose their jobs and to change them at will, with no ceiling on advancement, and constantly increasing real wages for shorter working hours."²¹

By the end of the 1940s the parameter of the postwar American political economy was set into government-business-labor relations. More and more employers came to recognize the function of unions for enhancing industrial peace and thereby raising

²⁰ According to one contemporary observer, Arthur W. Calhoun, it would serve labor's interest better to be "a sidepartner to American business in its march toward the enslavement of the world than to take poor chances in a battle with the employers" because American capitalism could "afford to hand out a continual stream of material benefits" to organized labor "so that social solidarity might be maintained in the face of an unfriendly foreign world." Quoted in Ronald Radosh, *American Labor and United States Foreign Policy* (New York: Random House, 1969), p. 5. For a historical overview of welfare capitalism, see Sanford M. Jacoby, *Modern Manors: Welfare Capitalism since the New Deal* (Princeton: Princeton University Press, 1997), chap. 1.

²¹ Quoted in Mark Rupert, *Producing Hegemony: The Politics of Mass Production and American Global Power* (Cambridge: Cambridge University Press, 1995), pp. 160–61.

productivity. They began to realize that institutionalization of a “responsible” union would prevent more political, radical labor organizations from challenging the management’s authority over the production process. Furthermore, unions were considered “essential to the national economy.”²²

ORGANIZED LABOR AS A JUNIOR PARTNER
OF THE “CORPORATE COMMONWEALTH”

The New Deal and Fair Deal left a sizable body of organized labor that was indeed an unprecedented phenomenon in American history. The 1955 merger of the two previously competing federations seemed a pinnacle of the organizing drive that preoccupied most labor leaders during the Depression and the war. Although the CIO had started with more potential of being a modern, encompassing trade union federation, it failed to achieve the goal of industrial unionism. Indeed, it never approached the stage of “one union in one industry” as experimented in West Germany after the end of the war. In terms of the membership, the CIO was still far behind the AFL, which despite its discriminatory union politics had more black members than the civil rights-sensitive CIO. Industrial unionism also reduced the CIO’s appeal to non-core working class groups such as clerks, public employees, and service workers, who went under the roof of the AFL. Moreover, two decades of rivalry between the two labor centers had been driven often by the personal animosity between leaders rather than any irreconcilable ideological differences. With the deaths of Philip Murray (CIO) and William Green (AFL) the merger proceeded with

²² C. Wright Mills, *The New Men of Power: America’s Labor Leaders* (New York: Harcourt, Brace, & Co., 1948), p. 26.

alacrity under the new leaderships of the two federations.²³ The merger meant the consolidation of business unionism and company-based collective bargaining in the United States; and it was on the same track of welfare capitalism's development.

By the mid-1950s, 17.5 million workers—one in every three non-farm workers—were unionized. The membership was three million more than in 1947 and five times as many as in 1934.²⁴ Such a dramatic achievement was viewed by some as an indication of the Europeanization of the U.S. political economy, that is, a growing tension between capital and labor and even the political realignment along the class lines. But for the United States to become Europeanized, there should be more political and ideological conditions favorable to class politics. Since the days of Samuel Gompers, American workers had been locked in the iron cage of “business unionism,” which had an effect of separating work from politics. Instead of sending out their workplace concerns to the arena of electoral and party politics,²⁵ organized labor preferred to “settle with” employers.

In his *The New Men of Power*, C. Wright Mills deplored that American labor leaders were tied to the view of politics “as a pluralist system of interests which balanced each other in shifting compromise.” They were borrowing the politicking style of Democratic machine bosses. Political reality was understood as a network of patron-client

²³ Zieger, *CIO, 1935–1955*, chap. 13; Mills, *New Men of Power*.

²⁴ Tomlins, *State and the Unions*, p. 317.

²⁵ Victoria C. Hattam, “Institutions and Political Change: Working-Class Formation in England and the United States, 1820–1896,” in *Structuring Politics: Historical Institutionalism in Comparative Politics*, ed. Sven Steinmo, Kathleen Thelen, and Frank Longstreth (New York: Cambridge University Press, 1992), p. 180, n. 3.

relationship and labor involvement, in any form, in that arena could not be an exception.²⁶ Such a view of politics prevailed inside the unions, too. For mainstream unionists, union democracy meant formal representation of the rank and file by union officers,²⁷ just the way the larger political system was defined.

This strong current of pluralism within the American labor movement was well preserved and fortified during the Eisenhower years. Even the CIO's Political Action Committee (PAC) was far from an effort to create a separate laborist—let alone socialist—party. Its main objective was to reproduce a Congress sympathetic to the voice of labor by directly engaging in electoral politics.²⁸ Not surprisingly, the CIO-PAC chose the Democratic party as its political partner. Organized labor's attachment to the party, however, brought about an unintended outcome: *separation of the shop floor and national politics*.

For the Democratic party, organized labor was one, if more significant than any, of various groups (a "motley crew" coalition) that supported its national policy agendas most of which were not directly related to labor's urgent needs. The party had no direct knowledge of what the rank and file demanded at the plant level, and it had little need to know. Such information was provided by labor politicians in Washington. The CIO-PAC's activity was concentrated on the national level, even though during the Eisenhower years states' precedence over the federal government was advocated and put

²⁶ *New Men of Power*, p. 163. For an alternative view that sees more similarities than differences between the United States and Western Europe in terms of party-trade union alliance, see J. David Greenstone, *Labor in American Politics* (New York: Alfred A. Knopf, 1969), pp. 6–7.

²⁷ Rupert, *Producing Hegemony*, p. 162.

²⁸ James Caldwell Foster, *The Union Politic: The CIO Political Action Committee* (Columbia: University of Missouri Press, 1975), p. 197.

into practice. In the absence of political organization at the state and local level, bargaining with employers was confined to such issues of little political significance as hours, wages, and working conditions. Organized labor's political lobbying power at the national level and its economic bargaining power at the plant level were quite independent developments.

The CIO's interest in participation in national politics was an indication of its centralized structure as compared to its rival federation, the AFL. Since most of AFL unions were craft unions composed of skilled workers in such *trades* as construction, mining, transportation, personal service, and certain professional fields, the AFL was organized along the cleavage lines of ethnicity, religion, race, and gender.²⁹ Those cleavages were mobilized by unions and politicians alike on a local basis. By contrast, the CIO had its strongholds in such mass-production *industries* as steel, textiles, automobiles, electrical equipment, and rubber. Fordist production process of those industries made workers with different levels of skill get together and subject to a similar level of management supervision. More important, mass-production industries had little variations based on location of the workplace. In other words, CIO unions were relatively class-based, national organizations. The class base of the CIO, however, was a very limited one. While the CIO progressively extended its organizational net beyond the skilled craft workers, it remained inaccessible to the lowest ranks of the wage workers.³⁰ The CIO was a "club of the industrial workers" at best.

²⁹ Mills, *New Men of Power*, pp. 55, 60–61; Mark Edward Rupert, "Producing Hegemony: State/Society Relations and the Politics of Productivity in the United States," *International Studies Quarterly* 34 (1990): 441.

³⁰ Mills, *New Men of Power*, pp. 61–62.

What Mills calls the “lack of democratic opposition” within the labor federations helped extend the time horizon of class compromise between labor and management. On the part of management, a sustained labor leadership was a more reliable partner in building a stable “factory regime” than a democratic thus mercurial one. On the part of unions, intra-union discipline was often essential when dealing with still intransigent employers that comprised the majority of conservative business associations like the National Association of Manufacturers (NAM) and the U.S. Chamber of Commerce (USCC). But labor officials used intra-union discipline more often in order to prevent any challenges to existing leadership and thereby to maintain the factory regime incarnating what David Brody called the “workplace rule of law.”³¹

The monopolizing status of the AFL-CIO within organized labor was actively endorsed as a guarantee of industrial peace by a liberal faction of the business community. George W. Brooks, a Cornell industrial relations expert, provided a good summary of the “one national union is enough” view in the following:

Industrial stability is a major public good ... it is the way we reconcile efficiency with democracy in labor-management relations. Responsible leadership on both the management and union side are essential, and leadership, in order to be responsible, must be relatively secure. Rival unionism is undesirable because it threatens this security, and also it disturbs established relations and creates confusion in the plant.³²

The NLRB’s “contract-bar” doctrine provided a legal support to the centralization of unions. It gave incumbent unions monopoly on representation in bargaining process for the duration of their contract with employers. By 1947, the NLRB had established a two-year bar as reasonable, and the duration was further extended. Longer-term contracts

³¹ Ibid., p. 64; Rupert, *Producing Hegemony*, p. 164.

would stabilize labor-management relations. The contract-bar rules were also abused against the communist-led incumbent unions after the purge within the CIO in 1948–1949. Whether the NLRB used or abused the rules, the end result was organized labor’s commitment to “stability” as opposed to “self-organization.”³³

Renewed business unionism was different from that of the late nineteenth and early twentieth century. In its Gompersian phase, organized labor had only one national federation, the AFL. But organizational center of the AFL was not the national headquarters but local unions in control of funds. In the absence of national government to provide universal rules and procedures, union leaders had to deal with fluctuating local politics, especially courts, and after frustrated attempts at reform they avoided politics and turned to voluntarism.³⁴ Even if the AFL had been a strong national “encompassing organization,” it could not have made a significant difference just because of the nature of the polity as a whole. This decentralized pattern of authority was transformed into bureaucratic centralism by the New Deal and the merger with the CIO in 1955.

To the extent that centralization of authority in union politics is based on “centralization of funds,” the introduction of the checkoff system was crucial in weakening the locals and empowering the national headquarters. With no independent strike funds in their hands, the locals became financially tied to higher authority. Even the union shop, which had been considered the bastion of labor power, came to be used against the challengers to current unions under the NLRB certification system. The AFL-

³² Cited in Tomlins, *State and the Unions*, p. 319.

³³ Ibid., pp. 322–24.

³⁴ Hattam, “Working-Class Formation,” p. 163.

CIO merger was accompanied by national union mergers and other restrictions on the locals' freedom of affiliation. Without rival national unions to switch to, the locals had to follow the policy directions set by the monopolizing AFL-CIO.³⁵

Under the circumstances, the only available "weapon of the weak" was unauthorized stoppages (better known as "wildcat strikes"). In the words of Stanley Aronowitz, "the wildcat strike was the protest of the rank and file against the tendency of the union leadership towards a strategy of political compromise in order to secure the means of consumption." But at the same time it was an indication of the "absence of an alternative discourse" among the oppositions within organized labor. The ideology of "affluent workers" allowed no project of "counterhegemony" to develop. The postwar factory regime was becoming a system of law and order for "making labor safe for liberal capitalism." The United Mine Workers (UMW) is a case in point. A notice sent to all miners in May 1956 defined the wildcat strike as a violation of union policy, designated the machinery of the joint agreement as the channel of dispute settlement, and warned that any locals engaging in unauthorized work stoppages would be fined.³⁶

The center of gravity in union politics shifted from the interaction between the rank and file and the leadership to the one with bureaucratic bodies dealing with federal agencies, political parties, business associations, and courts. It was interventionist labor policy on the part of the federal government that sharply increased the number of "experts" in the administration of industrial relations. Far short of social democratic

³⁵ Mills, *New Men of Power*, p. 63; Richard A. Lester, *As Unions Mature: An Analysis of the Evolution of American Unionism* (Princeton: Princeton University Press, 1958), p. 25.

³⁶ Stanley Aronowitz, *Working Class Hero: A New Strategy for Labor* (New York: The Pilgrim Press, 1983), pp. 93–94; Lester, *As Unions Mature*, p. 32.

corporatism in which decisions made through negotiations at the national level apply to every plant and every office, the New Deal regulatory state was basically a case-by-case system. One ruling over a specific case—regarding particular workplaces—could not automatically apply to other cases. The traditionally strong role of the courts also contributed to the segmentation of American corporatism. While entitling citizens to social welfare rights in Western Europe was a *political* process, it was a *judicial* one in the United States. As a result, organized labor came to need more lawyers to represent them in courts. With collective bargaining being “increasingly factual, statistical, and full of economic reasoning,” national labor centers hired more and more researchers and analysts, most of them were economists.³⁷

It is important to note that the absence of a comprehensive and universal welfare state led to an unintended consequence: *unions as a provider of “cradle-to-grave” benefits*. Well-established industrial unions like the UAW could provide their members with a wide variety of “fringe benefits” package by “winning corporate-paid welfare programs.” Although workers’ real wages continued to rise throughout the 1950s, the fringe benefits through union contracts were an effective tool for labor leaders to hold the line on the shop floor. The so-called “Treaty of Detroit” of 1950 between General Motors and the UAW set the pattern for “contract unionism.” It was the first five-year contract in mass production industries. By signing the long-term agreement, the UAW won a cost of living escalator and an annual improvement factor, which guaranteed higher wages in proportion to aggregate productivity growth, while conceding GM’s “control over ... long-range scheduling of production, model changes, and tool and plant investment.” The

³⁷ Lester, *As Unions Mature*, p. 24.

UAW-GM agreement was imitated by other unionized sectors through “pattern bargaining” and by nonunion sectors in an effort to avoid unionization.³⁸

Finally, centralization and bureaucratization of organized labor made it much easier for the union leadership to push for trade liberalization despite the fact that free trade was not in the interests of workers in some sectors. With the return of a Republican to the White House after two decades’ absence, there was mounting concern that the New Deal policy packages of trade liberalization and labor accommodation would be discarded. The Public Advisory Board for National Security, including George Meany of the AFL and Walter Reuther of the CIO, gave support to the renewal of the Reciprocal Trade Agreements Act (RTAA) in a report made to President Eisenhower. The RTAA was endorsed as an economic weapon of the United States in its war against totalitarianism. Instead of being dismantled, the report argued, the RTAA should be supplemented with aid to industries injured by tariff reductions and unemployment insurance extended to workers displaced by import competition.³⁹

Represented on the same board, however, the two national labor federations had different views on how to compensate for job losses caused by trade liberalization. The AFL, composed of mostly craft-type unions in labor-intensive, domestic-oriented sectors, was more concerned about the impact of freer trade on employment, working and living standards. As a result, the AFL saw the need to restrict the RTA program by retaining

³⁸ Klausen, *War and Welfare*, p. 226; Aronowitz, *Working Class Hero*, p. 47; Rupert, *Producing Hegemony*, p. 170; Jonas Pontusson, “Introduction: Organizational and Political-Economic Perspectives on Union Politics,” in *Bargaining for Change: Union Politics in North America and Europe*, ed. Miriam Golden and Jonas Pontusson (Ithaca: Cornell University Press, 1992), p. 26.

³⁹ Peter Donohue, “Free Trade Unions and the State: Trade Liberalization’s Endorsement by the AFL-CIO, 1943–1962,” in *Research in Political Economy*, ed. Paul Zarembka (Greenwich, Conn.: JAI Press, 1992), 13: 36–37.

“peril points” and “escape clauses” provisions, and through Buy American purchases. By contrast, the CIO with a strong base in capital-intensive, mass-production industries envisioned “linking trade with employment, investment and development through a supra-national planning authority.” For CIO leaders, especially Reuther, unfair trade so feared by domestic producers could be ultimately “eliminated through enactment of international fair labor standards.” Any other measures were unnecessary because American workers and industries “could even skin the sweatshops.” Those stopgap measures would only give other countries an impression that the United States was going back to protectionism.⁴⁰ Such a left Wilsonian view reflected Reuther’s belief that a global adoption of American model of liberal capitalism would bring sustained prosperity to U.S. labor.

Despite the inter-federation difference, it was clear that organized labor’s support greatly contributed to the renewal of the RTAA in 1955 for another three years. The AFL-CIO merger in the same year also added strength to organized labor’s pro-free trade efforts. But inside the House of Labor was running another line of cleavage: *sectionalism*. Although the AFL-CIO dominated union politics, “it was a political force effectively contained within the industrial heartland of the Great Lakes region, with some strength in New England and on the West Coast as well.”⁴¹ As can be seen in the wave of “right to work” legislation and the defeat of the CIO’s “Operation Dixie,”⁴² the South was a

⁴⁰ Ibid., pp. 39, 44.

⁴¹ Ronald W. Cox and Daniel Skidmore-Hess, *U.S. Politics and the Global Economy: Corporate Power, Conservative Shift* (Boulder, Colo.: Lynne Rienner, 1999), p. 95.

⁴² See Gall, *Politics of Right to Work*; and Barbara S. Griffith, *The Crisis of American Labor: Operation Dixie and the Defeat of the CIO* (Philadelphia: Temple University Press, 1988).

fortress against industrial unionism and other agendas of reformist politics. On the issue of trade, however, the South had been a traditional source of support for economic openness because of its rich endowment of land and labor engaged in textile industry. “Intensified competition with new synthetic fiber producers and accelerating technological innovation,” by 1955, had allowed many southern Democrats to defect from their party to form a protectionist coalition with conservative Republicans.⁴³

Inside the AFL-CIO, the Textile Workers Union of America (TWUA) represented the southern perspective. The TWUA had urged tariff reduction to be made “only on an industry-by-industry, product-by-product basis,” and demanded “escape clause” exemption of textiles from the 1955 RTAA extension. Although its proposal was rejected by the AFL-CIO that employed the “politics of productivity” discourse, one TWUA official’s logic of limited trade liberalization was quite reasonable: “trade is good not because it will create additional jobs but because it will make some jobs more productive.”⁴⁴ Free trade was a *selective good* at best. The most productive industries and their workers would benefit from it.

But this should not lead to an argument that economic position of the dominant faction of U.S. labor determines the direction of embedded liberalism. Embedded liberalism was more than just a coalition of economic interests. I turn to how big business and policymakers tried to develop a “more-than-economy” logic within the factory and political regime.

⁴³ Donohue, “Free Trade Unions and the State,” pp. 41, 46.

⁴⁴ Ibid., pp. 46–47.

CONTAINING THE WELFARE STATE WITHIN WELFARE CAPITALISM:

BIG BUSINESS RESPONSE TO LABOR AND GOVERNMENT

Once successful in hampering the immediate postwar radicalization of the labor movement, business community sought to delimit the scope of its relations to organized labor and the federal government. This effort at self-definition within a new “political capitalism” continued throughout the Eisenhower years partly because the first Republican administration in two decades would not “reverse course” in the area of the domestic political economy. As I will explain in more detail in the next section, the counterintuitive policy direction of the Eisenhower administration reflected the increasingly expanded constituency of the welfare state. American voters already began to reveal the dual calculus of tax payer-cum-welfare recipient. When they had to pay for the spending of big government, American voters elected the former general as a Republican president. When the thrifty administration tried to cut welfare benefits as well as taxes, American voters responded by allowing Democrats to control the Congress.

Aside from such political considerations, business community came to accept the existing New Deal social compact on its own economic grounds. With the end of wartime controls on prices and wages, “higher wages could simply be matched by higher prices.”⁴⁵ But higher wages and higher prices both needed the growth of productivity. Indeed, productivity increased more rapidly than wages: “between 1951 and 1966, real average hourly earnings in manufacturing increased about 39 percent, while output per worker-hour grew by 65 percent and real value-added per worker-hour grew by nearly 52 percent.” Increasing levels of social consumption had an important consequence for

⁴⁵ Sparrow, *From the Outside In*, p. 75.

industrial structure: *a balance between the producer goods and consumer goods sectors*.⁴⁶ Less capital-intensive, more domestic-oriented consumer goods sectors did not have to seek a protectionist solution for fear of market loss. Instead, they were incorporated into a wider coalition for economic growth.

But the formation of the growth coalition took some time and efforts on the part of conservative as well as liberal faction of the business community. At first, business activism was conceived and pursued on the liberal side. The organizational focus was the Committee for Economic Development (CED) composed of such “corporate liberals” as Marion B. Folsom (Eastman Kodak), Gerard Swope (General Electric), Walter C. Teagle (Standard Oil), Morris E. Leeds (Leeds and Northrup), Henry S. Dennison, and Jesse Jones. With the publication of a document titled “The Economics of a Free Society: A Declaration of American Economic Policy” in 1944, the CED accepted the framework of “political capitalism” as the blueprint for a new postwar American economy. Their starting point was to recognize the expanded role for the government in the key areas of collective bargaining, fiscal policy, and social welfare programs. Most important was the recognizing of organized labor as a “legitimate partner” in cultivating industrial peace and enhancing further economic growth.⁴⁷

As Mark Rupert has observed, “the first major corporations (General Motors and U.S. Steel) to recognize unions of the CIO (then known as the Committee for Industrial Organization) as legitimate collective bargaining agents were not among the group of

⁴⁶ Rupert, *Producing Hegemony*, pp. 171–72.

⁴⁷ Kim McQuaid, *Big Business and Presidential Power: From FDR to Reagan* (New York: William Morrow & Co., 1982), pp. 117–18.

industries which [Thomas] Ferguson's theory identifies as those most likely to accept accommodation with organized labor."⁴⁸ On the other hand, even the undisguisedly antilabor NAM included a number of unionized companies that respected union security.⁴⁹ The partial incongruence between Ferguson's elegant theoretical model—what he has even dubbed the “golden rule” of American politics⁵⁰—and the historical evidence, however, should not be overemphasized simply because “not all the errors vitiate all the arguments.”⁵¹ But then, that incongruence can be explained by the importance of welfare capitalism within the business community before and after the New Deal.

Welfare capitalism as a company-based regime for promoting industrial peace had existed well before the formation of what Ferguson called the “multinational bloc” during the second New Deal; it can be traced back to as early as the late nineteenth century. “Containing overtones of management paternalism, it stressed a battery of techniques including employee representation, profit-sharing, stock ownership, suggestion systems, company magazines, and benefit programs such as group life insurance, pensions, and sickness pay.” The pathbreakers in the history of welfare capitalism, General Electric and Eastman Kodak, were among the largest (as well as the most innovative) corporations in the 1870s. Job-centered private welfare systems had become the norm within the

⁴⁸ Rupert, “Producing Hegemony,” p. 437, n. 15.

⁴⁹ Lester, *As Unions Mature*, p. 41.

⁵⁰ Thomas Ferguson, *Golden Rule: The Investment Theory of Party Competition and the Logic of Money-Driven Political Systems* (Chicago: University of Chicago Press, 1995).

⁵¹ James Joll quoted in Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca: Cornell University Press, 1986), p. 253, n. 13.

community of big corporations. The corporate-financed welfare system was the outcome of “minimalist and revenue-poor Washington” in two slightly different senses. On the one hand, it was created by private entrepreneurial initiatives because there was a dearth of public assistance programs financed by governments at any level. On the other hand, its expansion was encouraged by the federal government. For example, Herbert Hoover in various capacities during the 1920s advised the heads of organized business to codify fair standards of practice that would be guidelines for company-based welfare system.⁵²

Although these earlier records of welfare capitalism account for much of the incongruence between Ferguson’s theory and historical evidence, it must be also noted that welfare capitalism refashioned itself as a “political strategy” beyond the factory gate during the late 1940s and 1950s. As Howell Harris has argued, business community, in a U.S. system where egalitarian political culture and a high level of economic inequality coexist, had to “win” the consent from the American people, not just their employees, regarding the way the economic pie was redistributed. Welfare capitalism, for at least the corporate liberals of the CED, was no longer a mere “management technique” of some enlightened employers for preventing shop floor grievances. It was becoming an institutional fixture for accommodating organized labor’s demands rather than unilateral actions on the part of management. Welfare capitalism was transformed into a bigger

⁵² Lester, *As Unions Mature*, p. 38; Kim McQuaid, *Uneasy Partners: Big Business in American Politics, 1945–1990* (Baltimore: Johns Hopkins University Press, 1994), p. 82; Beth Stevens, “Blurring the Boundaries: How the Federal Government Has Influenced Welfare Benefits in the Private Sector,” in *The Politics of Social Policy in the United States*, ed. Margaret Weir, Ann Shola Orloff, and Theda Skocpol (Princeton: Princeton University Press, 1988), pp. 125–26; Edward Berkowitz and Kim McQuaid, *Creating the Welfare State: The Political Economy of Twentieth-Century Reform* (New York: Praeger, 1980), p. 60.

game wherein more stakeholders were involved than ever; and the federal government was a major player.⁵³

The role of the federal government was instrumental in efforts to combine welfare capitalism with welfare state. In 1950, Congress allowed 8 million more employees, including the self-employed, to be beneficiaries of the Social Security old age retirement program. The Social Security tax rate and the total amount of wages subject to Social Security taxation both were raised. As a result, Social Security payouts increased by 500 percent for the period of 1950–1955. The reform drive continued after a Republican returned to the White House. Despite the resistance from small business organizations like the USCC, coverage was extended to an additional 10 million employees, and in 1956 disability insurance followed.⁵⁴

Another important aspect of welfare capitalism was its strength within the nonunion sector. Eastman Kodak provided an ideal example of welfare capitalism to other nonunion and unionized firms alike. Throughout the 1950s Kodak announced new or improved fringe benefits almost every year. They included a retirement plan, group life insurance, a stock purchase plan, sickness allowance, relocation assistance, retiree health insurance, increased holidays, liberalized tuition aid, a survivor income plan, a deferred compensation plan, a tax-deferred savings and investment plan, and mortgage lending. Those generous benefits were, of course, directly connected to Kodak's anti-union policy.

⁵³ Harris, *The Right to Manage: Industrial Relations Policies of American Business in the 1940s* (Madison: University of Wisconsin Press, 1982), p. 180; McQuaid, *Uneasy Partners*, p. 83.

⁵⁴ McQuaid, *Uneasy Partners*, pp. 85–86, 88, 90.

As with most welfare capitalist companies, “unions were anathema” at Kodak.⁵⁵ In terms of historical sequence, welfare capitalism within the nonunion sector preceded the union sector’s adoption of employment-based welfare programs. To be more exact, the latter copied the former.

RECONCILING WELFARE WITH AUSTERITY:
CONSENSUAL REGIME IN THE EISENHOWER ERA

When Dwight D. Eisenhower became the Republican presidential candidate in 1952, the former hero of the European war was expected to deal with the “fiscal crisis of the state” caused by the Truman administration’s huge spending, especially on its international commitments. With the “globalization of the Cold War,” the defense budget amounted to about \$13 billion in FY 1947–1950, and around \$5 billion on average went to international programs such as Marshall Aid. The core of the voters’ disillusionment with Truman’s foreign policy was the Korean War, which was consuming more American resources than a “limited war” would require without a corresponding prospect of victory. Eisenhower on the campaign trail promised to combine “security and solvency” and as a result won an emphatic victory. In a sense, Eisenhower was elected to stop the war in Korea and he delivered his first and most pressing mandate right after his visit to the frontline. At the same time Eisenhower adopted the “New Look” (officially known as NSC 162/2) as a guiding principle of public finance—it was aimed at “reducing

⁵⁵ Jacoby, *Modern Manors*, pp. 7, 78.

expenditures while maintaining American commitments” instead of going back to “doing nothing” policy of the pre-hegemonic era.⁵⁶

Eisenhower also made clear his commitment to the “balanced budget” in the area of domestic economic policy. Before taking office, the then president of Columbia University had decried the New Deal welfare state as “a mule’s sort of heaven—a tight roof overhead, plenty of food, a minimum of work and no worries and responsibilities.” But he never proclaimed a total dismantling of the New Deal; indeed, he promised to preserve the New Deal in his campaign. Eisenhower saw his presidential mandate as “making Republicanism palatable to mid-twentieth century America” by distancing himself from the two extremes of liberal Democrats and conservative Republicans. At least during his first term, Eisenhower tried to “republicanize” the New Deal welfare state while “drawing a line against its extension”; and he succeeded.⁵⁷ The Eisenhower administration preserved the New Deal welfare state by applying the logic of market to the federal-funded social welfare programs. It was a basically “pay-as-you-go” system. Social Security, though expanded, was still an appendage to welfare capitalism where only active involvement in the labor market could bring a decent living to individuals.

Although he was a fiscal conservative who valued self-reliance, Eisenhower was far from a dogmatic monetarist. Indeed, he recognized the efficiency of fiscal policy as a tool for economic stabilization. Paul G. Hoffman, president of Studebaker Motors, agreed to

⁵⁶ Iwan W. Morgan, *Eisenhower versus ‘the Spenders’: The Eisenhower Administration, the Democrats and the Budget, 1953–60* (London: Pinter, 1990), p. 27; Mark R. Brawley, *Afterglow or Adjustment? Domestic Institutions and Responses to Overstretch* (New York: Columbia University Press, 1999), pp. 244, 248.

⁵⁷ Collins, *Business Response to Keynes*, p. 152; Alonzo L. Hamby, *Liberalism and Its Challengers: FDR to Reagan* (New York: Oxford University Press, 1985), p. 118.

chair the Advisory Committee of Citizens for Eisenhower because he saw in the general “a new kind of candidate” who would take sides with neither the NAM nor the CIO. Hoffman’s judgment was correct. Eisenhower’s economic philosophy was closer to that of the “vital center” group such as the CED than that of conservative Republicans and free enterprise enthusiasts. Well aware of the popular obsession that another Depression would come along at any time, Eisenhower ensured that “there can now be no disagreement ... about the proper role of the Federal Government as a preventive agent in times of economic stress.”⁵⁸

Eisenhower’s cabinet members also had a middle-of-the-road view of economic policy. Reflecting the president’s long-held belief that businessmen were better than self-serving politicians, “top corporate leaders and governmental officials ... during Eisenhower’s presidency were largely interchangeable.” Eisenhower’s first cabinet was even caricatured as “eight millionaires and one plumber.” One of the big businessmen, George M. Humphrey, had been exposed to the policy ideas of the CED. Neither ardent interventionists nor laissez-faire conservatives, Eisenhower’s economic advisers were “attuned to the emergent commercial Keynesianism.” Gabriel Hauge, who had been a professor of economics at Harvard and Princeton, was among them and he proclaimed himself an “Eisenhower conservative.” Arthur F. Burns, the Columbia economist who was recruited by Hauge to serve as the chairman of the Council of Economic Advisers

⁵⁸ Morgan, *Eisenhower versus the Spenders*, p. 4; Collins, *Business Response to Keynes*, pp. 152–53.

(CEA), was suspicious of Keynesian theory, though his policy ideas continued to be stigmatized by Humphrey as “socialistic.”⁵⁹

Eisenhower’s style of presidency also helped consolidate the consensual polity. Traditional assessment of Eisenhower as president was negative because he seemed to be reserved in exercising his power mandated by the Constitution. In a political system in which separation of powers and checks-and-balances are devoutly practiced, “the great President is the strong President, and the strong President is the liberal and internationalist President.” By this liberal standard, Eisenhower has fallen under the category of “mediocre.”⁶⁰ Recent interpretations of Eisenhower, however, have stressed a more positive side of the president and his era. Instead of a timid, overly cautious man in advancing his policies to the Congress and the nation and as a result “doing nothing,” they have seen a shrewd politician who brought the policy process, both foreign and domestic, to his control. In the eyes of those who have admired the achievements of Roosevelt and even the young successor of Eisenhower, John F. Kennedy, the 1950s lacked major public policy changes, and thereby were boring. Revisionist accounts of Eisenhower, by contrast, emphasize that the president was good at preserving existing policy paradigms established by the New Deal and avoiding any drastic rollbacks in welfare spending. He was “doing something” just in his own way.

As a moderate Republican president, Eisenhower made efforts to “devise a program that in general conformity with the platform of his party, and ... to get it enacted into

⁵⁹ Pollard and Wells, “Era of American Economic Hegemony,” p. 359; Collins, *Business Response to Keynes*, pp. 153–54; John W. Sloan, *Eisenhower and the Management of Prosperity* (Lawrence: University Press of Kansas, 1991), p. 34.

law.” In the area of foreign economic policy, therefore, Eisenhower had to make a deal with protectionist interests within his party. The return of a Democratic-dominated Congress had no significant effect on “Eisenhower’s capacity to get his trade legislation accepted by Congress.” It was because the politics of trade had been becoming less partisan but come to overlap with the politics of foreign policy since the bipartisan manifesto of Vandenberg. “Protectionists became isolationists, and free traders became internationalists.” Within the limits of the “vital center” compromise, it was quite an easy job for a Republican president to summon bipartisan support for trade liberalization in the name of America’s new war against the threat of Communism. “Wherever popular discontent is found or group oppression or mass poverty ... there Communism may stage an offensive that arms cannot counter. Discontent can be fanned into revolution.” In short, throughout the Eisenhower years, the trade-security linkage was robust.⁶¹

Although there still remain disagreements over how many parties would be the best for the stability of the political system, it can be accepted that a small-*N* situation induces cooperation more often than in a large-*N* situation. Two major parties may accumulate rich and practical information about each other over time. Thus they are more likely to develop strategies to make a mutually acceptable deal than parties that fluctuate with their fortune on the electoral market or the shift of ideological leanings. Two-party system alone, however, does not account for the existence of consensual polity in the United

⁶⁰ James MacGregor Burns, *The Deadlock of Democracy: Four-Party Politics in America* (Englewood Cliffs, N.J.: Prentice-Hall, 1963), p. 178.

⁶¹ Chester J. Pach, Jr. and Elmo Richardson, *The Presidency of Dwight D. Eisenhower*, rev. ed. (Lawrence: University Press of Kansas, 1991), p. 49; Daniel Verdier, *Democracy and International Trade: Britain, France, and the United States, 1860–1990* (Princeton: Princeton University Press, 1994), pp. 205–6; Burton I. Kaufman, *Trade and Aid: Eisenhower’s Foreign Economic Policy, 1953–1961* (Baltimore: Johns Hopkins University Press, 1982), p. 12.

States. As I argue in the next chapter, two-party politics in Britain took a very different shape than that in America largely due to its close association with class politics. While in Britain partisan cleavage developed along class lines, America's two national parties competed along the multiple cleavage lines: ethnic, racial, and urban-rural.

Particularly important was the impact of *sectionalism* on the political process as a whole. Cross-party alliance between Midwest and West Coast Republicans and southern Democrats was matched by another one between Northeast Republicans and the rest of Democrats. Before the New Deal realignment, cross-party politicking was the essence of a congressional strategy: *logrolling*. The postwar cross-party alliances were, of course, the outcome of vote trade on the floors of the House and Senate. There was more "structural" dimension to them, however. The cleavage line between the two cross-party alliances was much thicker than pre-New Deal logrollings had been based upon. Politics was still business as usual. But stakes had become higher because of the "nationalization" and "socialization" of reform politics created by the New Deal. Policy agendas came to involve more federal resources than ever before. This led to what C. Wright Mills aptly called "governmentalization of the lobby," which meant that "[t]he executive bureaucracy becomes not only the center of power but also the arena within which and in terms of which all conflicts of power are resolved or denied resolution." The sociologist went on to describe the trend toward executive politics: "Administration replaces electoral politics; the maneuvering of cliques replaces the clash of parties."⁶²

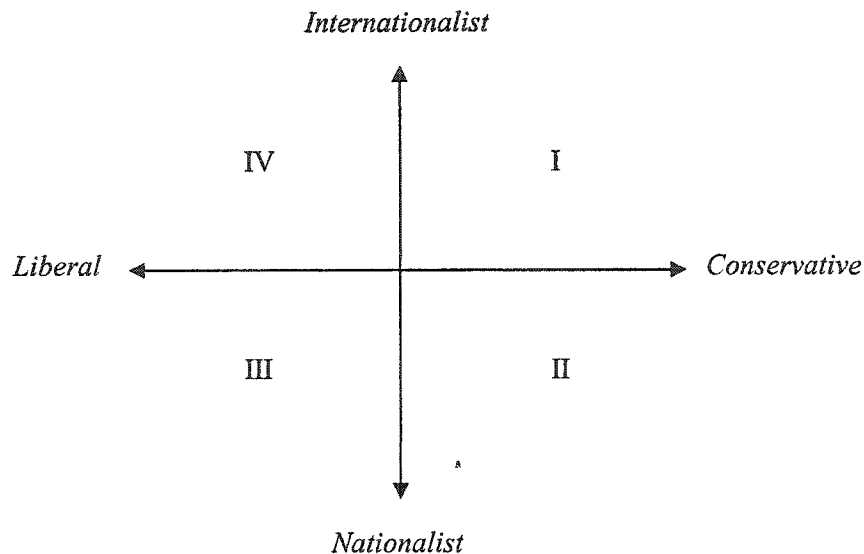
This phenomenon can be better understood when we recall James MacGregor Burns' thesis that "the pattern of national politics is essentially a four-party pattern. The

⁶² *The Power Elite* (New York: Oxford University Press, 1956), p. 267.

Democratic and Republican parties are each divided into congressional and presidential structures.” The four-party structure fits largely with a 2×2 typology of foreign-domestic policy mixes as shown in Figure 2.1.⁶³

⁶³ Burns, *Deadlock of Democracy*, p. 257.

FIGURE 2.1
Foreign-Domestic Policy Mixes in a Two-Party System



Source: Adapted from James MacGregor Burns, *The Deadlock of Democracy: Four-Party Politics in America* (Englewood Cliffs, N.J.: Prentice-Hall, 1963), p. 258.

Quadrants I to IV would roughly match executive Republicans, congressional Republicans, congressional Democrats, and executive Democrats. Sharp conflict between two diagonally opposed quadrants is expected, but a historically more dramatic conflict was one between Quadrants II (Taftite Republicans) and IV (second New Dealers–Fair Dealers). The coalition made between Quadrants I and IV (the “vital center” compromise) had the effect of bring intra-party (as opposed to inter-party) conflict to the fore. As I have mentioned earlier in this chapter, internationalist Democrats gave up an extension of the New Deal in exchange for Vandenberg Republicans’ endorsement of U.S. international commitments. At the same time, the Democratic party had suffered another massive defection of its southern faction from reform politics since the Gold Democrats.

The loss was, however, compensated with the incorporation of “liberal” Republicans into the growth coalition.

By the end of Eisenhower’s second term, Americans continued to “like Ike,” but they also liked the economic and social policies that the president opposed because of their budget-aggrandizing nature.⁶⁴ That was the price the president and internationalist Republicans had to pay for their achievements by means of the growth coalition.

EMBEDDED LIBERALISM, DOMESTIC COMPROMISE, AND AMERICAN HEGEMONY

Explaining the domestic conditions of embedded liberalism as an international economic subsystem with respect to the American case raises a major theoretical problem: *To what extent did the United States as a new hegemon shape the postwar liberal subsystem?* As an answer to the question, Anne-Marie Burley has presented the argument that embedded liberalism is nothing but the projection of the New Deal (and its Fair Deal compromise) onto the world. This view stresses the similarity in institutional arrangements between the New Deal regulatory state and postwar international regimes. “Private problems required institutionalized public intervention, at home and abroad.” Institutions should be specialized, relatively depoliticized, and yet subject to a central authority. Administrative agencies created during the New Deal are compared to international organizations dealing with issue areas as diverse as agriculture, trade, civil aviation, money and so on.⁶⁵

⁶⁴ Sloan, *Eisenhower and the Management of Prosperity*, p. 68.

⁶⁵ “Regulating the World: Multilateralism, International Law, and the Projection of the New Deal Regulatory State,” in *Multilateralism Matters: The Theory and Praxis of an Institutional Form*, ed. John Gerard Ruggie (New York: Columbia University Press, 1993), pp. 125–26.

I disagree with this view not because it could be abused to minimize the role of other participating countries in constructing embedded liberalism. I consider the view insufficient because it is at best a partial explanation of how the postwar world order was conceived. That the ideas of internationalist New Dealers and their institutional developments were the prime mover of the postwar subsystem at its initial phase is widely accepted. But the most intriguing part of the question about embedded liberalism may be: why U.S. policymakers “did not fully succeed [in] remak[ing] the world in the American image” and why “the order that finally emerged necessarily required negotiation and compromise with other nation.”⁶⁶ To answer those questions, we need to look into the 1950s as well as the 1940s, other liberal participants as well as the United States.

As I have argued in this chapter, the United States took up the mantle of liberal leadership only after its national government had been equipped with a huge body of bureaucracy administering the economy and both organized business and organized labor recognized each other as partners in the politics of productivity. During the 1950s, the postwar compromise was consolidated into a broader coalition for economic growth despite the absence of liberal Democrats from the executive branch. If a stronger historical counterfactual is permitted, one can say that liberal excesses for another four years would jeopardize the reform policy agenda as a whole. At the end of the Truman presidency, the New Deal-Fair Deal state confronted growing resistance from its since-the-1930s supporters as well as its unrepentant enemies. As Alan Wolfe has argued,

⁶⁶ Ibid., p. 129.

“New Deal liberalism was already a spent force in America by 1948.”⁶⁷ For the United States to pursue its domestic and international policy agendas, another brand of liberalism was needed; and hence the “vital center” compromise or “Cold War liberalism” or the “growth coalition,” whatever one likes to call.

Although I have painted a rosier picture of the domestic compromise’s association with embedded liberalism, Wolfe’s gloomier argument made a point and deserves our attention. According to Wolfe, the politics of growth was from the start a very fragile coalition because it worked on the assumption of sustained growth and depoliticization of the economic policy process. What made the problem worse, Wolfe continues, was the close connection between the domestic politics of growth and U.S. hegemony. As an underwriter of the liberal subsystem, the United States should have provided its club members with a stable regime for trade and money. That service could be provided so long as the economic supremacy of the United States measured in capital abundance was maintained. When its status as the most capital-abundant nation began to be shaken with the economic recovery of West Germany and Japan, the United States chose to bend the rules written by itself, though in consultation with Britain. That choice provoked anger from the club members, but it made perfect sense on the calculus of the domestic political economy. Sacrificing the domestic policy agendas to meet international commitments was not an option for U.S. policymakers in a political system where voters always ask the question: what have you done to me lately? Thus embedded liberalism is a contradiction in terms, Wolfe would conclude.

⁶⁷ *America’s Impasse: The Rise and Fall of the Politics of Growth* (New York: Pantheon Books, 1981), p. 9.

Wolfe's argument is cogent in addressing the internal tension of embedded liberalism, but cannot explain why it has persisted despite the incurable tension. Without considering the domestic political economies of other club members, viability of embedded liberalism is difficult to judge. Doing so would be to commit a structuralist fallacy: U.S. domestic political economy largely shapes the pattern and direction of the liberal subsystem primarily because of America's predominant position in terms of distribution of power. Instead of succumbing to such a nice-and-easy generalization, I argue that the fragility of the growth coalition is a property of embedded liberalism; and that a more important tension to study is one between different participants in the subsystem that occurs because of their different historical experience during the formative years of embedded liberalism. That is the task I will turn to in the next three chapters.

CHAPTER THREE

Keynesian Welfare State under Liberal Hegemony Weak Corporatism and Party Politics in Britain

LIBERAL SUPPORTER EXPERIMENTING WITH KEYNESIANISM

AS THE LIBERAL subsystem went through the Depression and the Second World War, major industrial nations in different ways defected from the norms and rules of the subsystem. New Deal America, Nazi Germany, and social democratic Sweden were the three paths to establishing “political capitalism” during the 1930s; and those innovations in the domestic political economy also helped lay down the guidelines for converting the warfare state into the welfare state. In the United States, the Fair Deal compromise extended the benefits of the New Deal welfare state to the population outside the safety net of private sectors’ welfare capitalism. In the defeated Germany the structure of “illiberal capitalism” was not entirely destroyed in spite of the rhetorical and actual willingness of the U.S. authorities to do so. While its autocratic political machinery was dismantled and replaced by a more liberal polity, the production system and the accompanying social pact created by the Third Reich remained intact and contributed to the reconstruction of the West German economy. Even France had had the interwar experience of the Popular Front that attempted to “break with the orthodoxy of deflation”

by nationalizing the Bank of France and implementing reflationary policies, although it was interrupted with the “strange defeat” of 1940.¹

In the face of this widespread illiberalization of the domestic political economy among the major industrial countries, Britain, the home country of John Maynard Keynes, was at least until the early 1930s reluctant to practice Keynesian policies that would use demand stimulus as a way of fighting the Depression. Major players in the policy process, including the Labour party and trade unionists as well as the Tories, followed the guidelines dictated by the Treasury and the City of London, deflationary monetary and fiscal policies, instead of adopting a Keynesian strategy of industrial expansion. The only political force in support of heterodox macroeconomic policies was the Liberals, who were not strong enough to provide a rallying point for all social groups dissatisfied with market mechanisms. This exceptionalist path taken by Britain reflected the “concern to maintain the value of sterling on the foreign exchanges.” Even after experiencing the traumatic 1926 general strike, “Britain was pinned to a cross of gold until 1931.”²

From a comparative perspective, that peculiarity needs explanation; and there already exist good accounts of why in Britain the break with orthodoxy was delayed in such hard times. One of the most popular explanations would be the social coalition approach

¹ For the nexus between the warfare and welfare state, see Bartholomew H. Sparrow, *From the Outside In: World War II and the American State* (Princeton: Princeton University Press, 1996); Jytte Klausen, *War and Welfare: Europe and the United States, 1945 to the Present* (New York: St. Martin's Press, 1998); for the impact of illiberal past on economic performance, see Simon Reich, *The Fruits of Fascism: Postwar Prosperity in Historical Perspective* (Ithaca: Cornell University Press, 1990); for the Blum experiment, see L. D. Schwarz, “Searching for Recovery: Unbalanced Budgets, Deflation and Rearmament in France during the 1930s,” in *Capitalism in Crisis: International Responses to the Great Depression*, ed. W. R. Garside (London: Pinter, 1993), p. 105.

² Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca: Cornell University Press, 1986), pp. 136–38; Peter A. Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986), pp. 49–50.

exemplified by the works of Peter Gourevitch. According to the approach, Britain's failure to use Keynesian macroeconomic tools during the 1930s and much of the 1940s can be attributed to the absence of the alliance between labor and some factions of industry on the one hand, and agriculture on the other. Early industrialization had the effect of removing the agricultural sector as an influential group from the British political scene.³

In contrast to the prevalent exceptionalist view, Jytte Klausen has argued that the British experience has much more in common with other countries in terms of warfare state-welfare state nexus than the existing literature would lead one to believe. Like governments in other countries, the British government during the war engaged in innovating the machinery of government in order to secure efficient mobilization. Like in many other countries, the impetus for policy innovation was provided by the war itself rather than the Depression. Indeed, as many historians pointed out, governments found their heterodox solutions for beating the Depression working more efficiently when they were connected to the war efforts than in peacetime. Corporatist tripartite consultation was the core of the innovation; and it continued to function in the process of postwar settlement. The so-called British exceptionalism, according to Klausen, has more to do with the post-1945 developments.⁴

³ Gourevitch's discussion about the "weakness of agriculture" is, of course, derived from Barrington Moore's approach to explaining the uniqueness of British history in *Social Origins of Dictatorship and Democracy* (1966). In a slightly different way, Gregory Luebbert suggests the "Red-Green alliance" as a precondition for social democratic corporatism in *Liberalism, Fascism, or Social Democracy: Social Classes and the Political Origins of Regimes in Interwar Europe* (New York: Oxford University Press, 1991).

⁴ *War and Welfare*, chap. 2.

In order to account for what went wrong in the postwar years, however, it is necessary to look at the incongruence between corporatist machinery of governance and Keynesian management of the economy. Although there is no need to assume an unmediated relationship between the two, corporatist institutions provide conflicting interests with a meeting place for negotiation over the distribution of costs and benefits associated with the implementation of Keynesian policies. While in Britain, too, the reorganization of Whitehall in favor of consultation had been a contributing factor to the final acceptance of Keynesianism,⁵ the intertwining of the two in the postwar period revealed great tension. In this chapter, such a tension between informal institutions and economic policy outcomes constitutes the problem of British exceptionalism. As I discuss in the concluding chapter, Britain during the 1980s experienced the most radical right turn among the advanced industrial countries. Thatcher's conservative revolution was so painful because Britain's corporatist bodies were too weak to preempt such a shock therapy. It was felt more disruptive than in the United States where Reaganomics included military Keynesianism that had the effect of boosting industrial production and even job creation.

Of the four countries under investigation in this study, Britain was most explicit in adopting the Keynesian macroeconomic policy tools for the purpose of ensuring full employment. The sudden change from stubbornness to receptiveness in endorsing heterodox economic doctrines had both domestic and international sources. Domestically, it reflected the logic of electoral politics that neither of the two major parties could form a

⁵ Margaret Weir, "Ideas and Politics: The Acceptance of Keynesianism in Britain and the United States," in *The Political Power of Economic Ideas: Keynesianism across Nations*, ed. Peter A. Hall (Princeton: Princeton University Press, 1989), p. 65.

majority government without garnering the votes of the working class. Aside from the Labour party that was supposed to go for a Keynesian welfare state, the Conservative party turned to accommodationist economic policies out of the prevalent belief that the 1945 election defeat was a direct outcome of its failure to meet the demands of industrial workers during the interwar period.⁶ Delivering the wartime promise was a political necessity to the Conservatives if they were to govern the nation with stability.

Internationally, Britain took advantage of the newly emerging U.S. hegemony in its own efforts to achieve domestic policy goals. Although Britain itself was still one of the major capital exporters within the liberal community, the destination of British capital was concentrated on the old sterling area. Britain's internationalism was limited in scope when compared to that of the United States. As long as the dollar-pound convertibility was guaranteed through the "special relationship" between the two authors of the Bretton Woods system, Britain could rely upon the "automatic regulator" like the sterling policy instead of adjusting its domestic policy packages to changing economic situations. Britain's dependence on the U.S.-financed Bretton Woods regime became evident when we recall the fact that the British government adopted a floating exchange rate only after the United States finally closed the "gold window" in 1971.⁷

As Arthur Stein has pointed out, "the former hegemon remains a major ... trading power, and its participation and agreement are necessary if relative openness is to be maintained." In particular, Britain's political and economic influence over the

⁶ Michael Moran, *The Politics of Industrial Relations: The Origins, Life and Death of the 1971 Industrial Relations Act* (London: Macmillan, 1977), p. 14.

Commonwealth countries was an asset in its participation in the regime of embedded liberalism. With the relative loss of capital-intensive sectors' competitiveness, Britain fenced in its free trade zone by establishing the Imperial Preference System in 1931. When the United States proposed a multilateral trading system as part of the postwar international economic order, Britain's response was lukewarm at best and obstructionist at worst. Neither the business community nor the Labour party (as distinguished from the Labour cabinet) wanted the dismantling of the Imperial Preference System. This created a "two-level game" situation where the British government tried to squeeze U.S. concessions in the monetary and trade issues, while keeping domestic pressures for protection to a minimum.⁸

This strategy was commonly used by Western European nations in their efforts to protect domestic industries from foreign, particularly U.S., competition and secure enough resources for the expansion of the welfare state throughout the 1950s. But in the case of Britain, its credibility was much higher largely because of the existence of the Commonwealth markets that could be closed off by means of the pound as the key currency. Other club members also had their own effective bargaining chips in their dealings with the United States as I will show in the following two chapters. The difference lay in the fact that Britain's bargaining chips had more systemic implications.

⁷ Hall, *Governing the Economy*, pp 51, 58–59; Stephen Blank, *Industry and Government in Britain: The Federation of British Industries in Politics, 1945–65* (Farnborough, Hants: Saxon House, 1973), pp. 123–26.

⁸ Stein, "The Hegemon's Dilemma: Great Britain, the United States, and the International Economic Order," *International Organization* 38 (1984): 386; Mark R. Brawley, *Liberal Leadership: Great Powers and Their Challengers in Peace and War* (Ithaca: Cornell University Press, 1993), p. 157; Helen V. Milner, *Interests, Institutions, and Information: Domestic Politics and International Relations* (Princeton: Princeton University Press, 1997), p. 141.

In this chapter, I focus on the tension between embedded liberalism as the new liberal subsystem and the Keynesian welfare state as the British way of securing domestic compensation. In order to explain the tension I look into the instability of corporatist governance and the persistence of adversarial party politics. In addition to these two main variables, I take into account the domestic side of the British *afterglow* as a contextual variable. The phenomenon characterizing Britain as the foregone hegemon deserves our attention because the strong ties to the glorious past were institutionalized within the centers of politics and economy. Even organized labor and the Labour party were not immune from the institutional inertia generated by the lingering effects of hegemonic policies.⁹

Before examining how those variables interacted with each other during the 1950s, I discuss the institutional arrangements for embedded liberalism compromise under the first postwar Labour administration. Such a discussion is essential because the Labour government in 1945–1951 set the pattern for the postwar mixture of weak corporatism and party politics.

DELIVERING THE WARTIME PROMISE IN PEACETIME: THE LABOUR GOVERNMENT'S POSTWAR COMPROMISE

Policy distance between Labour and the Conservatives since the 1930s had been so wide that a future Labour government was believed to provoke fierce resistance from its opponents. This mixed mind-set of hope and fear turned out to be futile because the

⁹ For the notion of afterglow, see Mark R. Brawley, *Afterglow or Adjustment? Domestic Institutions and Responses to Overstretch* (New York: Columbia University Press, 1999).

Labour government that actually emerged did not push its postwar reform to the point of “radically ... tear[ing] up the fabric of society.” Of the three pillars of the Labour reform agenda, nationalization was the most feared one. The other two—the establishment of the welfare state and a commitment to full employment—were agreed to by the Conservatives during the war. In comparison with other participants in the regime of embedded liberalism, particularly important was the bipartisan commitment to full employment. While in the United States even the second New Deal’s business leaders accepted the expanded role of the state in the economy on the condition that the federal government would not *insure* rather than just *promote* a high level of employment, in Britain the wartime coalition government could declare that “The Government accepts as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war.”¹⁰

At the end of the first postwar Labour administration, Britain’s economic performance as a whole showed recognizable improvements. For the period of 1947–1950, industrial production increased by 30 percent and exports by 60 percent; the balance of payments turned from a deficit of £545 million to a surplus of £229 million. Such indications of economic growth beyond mere recovery were made tangible through more personal consumption, more housings, extension of the social services, and most importantly full employment. Those immediate postwar developments were to prove that Clement Attlee was right when he in 1944 predicted:

¹⁰ Kenneth N. Waltz, *Foreign Policy and Democratic Politics: The American and British Experience* (Boston: Little, Brown & Co., 1967), p. 82; Hall, *Governing the Economy*, p. 71; Kim McQuaid, *Big Business and Presidential Power: From FDR to Reagan* (New York: William Morrow & Co., 1982), p. 127.

Whether the postwar Government is Conservative or Labour, it will inevitably have to work a mixed economy. If it is a Labour Government it will be a mixed economy developing towards Socialism. If a Conservative Government it will be an economy seeking to retain as much as possible of private enterprise. But both governments will have to work with the world and the country as it exists. There are limits to the extent to which the clock can be put forward or back.¹¹

Although Attlee's verdict may be correct in the long run, the six years after the end of the war also provide the evidence that the establishment of the Keynesian welfare state in Britain rested upon weak corporatism in combination with state intervention and was thereby vulnerable to economic fluctuations. The crucial factor behind the apparently consensual polity was the British mixture of majoritarian electoral system, two-party competition, and executive-centered government. This implies that well-established formal institutions militate against easily changeable informal institutions to produce a working system.

When the Labour party took office in 1945, its policy paradigm was still dominated by the legacy of post-1917 radicalism. Nationalization and planning were given the first priority on Labour's electoral manifesto as the British way to the "New Jerusalem." Although Keynesians were still present within the party, they were not in a position to exert any significant influence over the policy process. Worst of all, the party leadership had little knowledge of Keynesian policy ideas. Here it is important to note that Labour's stress on nationalization and planning was not just a simple-minded reflection of socialist ideology. For the Labour government, nationalization and planning were the best means to save Britain from further economic decline. They were considered the socialist way to

¹¹ G. D. N. Worswick, "The British Economy 1950-1959," in *The British Economy in the Nineteen-Fifties*, ed. Worswick and P. H. Ady (Oxford: Clarendon Press, 1962), pp. 1-2. Quotation from Waltz, *Foreign Policy and Democratic Politics*, p. 92.

industrial modernization. This strategy of linking nationalization with industrial revival was matched by Labour's appeal for continued economic austerity and higher productivity. More important, the Labour-driven politics of productivity was directly connected with the strategy of "solving the balance of payments problem by diverting resources into exports, without sacrificing domestic consumption standards."¹²

With the partial exception of the iron and steel industry, Labour's nationalization program did not meet with violent opposition from the Conservatives. For Winston Churchill, the nationalization of the Bank of England did not "raise any matter of principle" because despite the change in ownership the Bank remained the "spokesman for the interests of the City of London," independent from the government. The logic of industrial rationalization was successfully applied to the case of the coal industry, which was considered lacking efficiency and even dubbed "an industrial worst case" by Correlli Barnett. The nationalization of Cable and Wireless and the British Overseas Airways Corporation was carried out as a continuation of previous government policies. "Debates over nationalization ... were largely symbolic."¹³ The real process of nationalizations was a technical rather than ideological one, especially when compared to the nation's neighbor across the channel, France.

¹² Weir, "Ideas and Politics," p. 67; Steven Fielding, Peter Thomson and Nick Tiratsoo, *'England Arise!' The Labour Party and Popular Politics in 1940s Britain* (Manchester: Manchester University Press, 1995), p. 169; Jim Tomlinson, *Public Policy and the Economy since 1900* (Oxford: Clarendon Press, 1990), p. 233.

¹³ Henry Pelling, *A Short History of the Labour Party*, 4th ed. (London: Macmillan, 1972), pp. 96–97; Hall, *Governing the Economy*, p. 73; Colin Crouch, *The Politics of Industrial Relations* (Manchester: Manchester University Press, 1979), p. 21; Barnett, *The Audit of War: The Illusion and Reality of Britain as a Great Nation* (London: Macmillan, 1986), chap. 4; Stephen Blank, "Britain: The Politics of Foreign Economic Policy, the Domestic Economy, and the Problem of Pluralistic Stagnation," *International Organization* 31 (1977): 685.

The quiet and peaceful process of nationalization was also due to the fact that the measure was applied mostly to “infrastructural, basic public utilities which ... were unaccustomed to making a profit yet whose products were indispensable.” The Labour government’s nationalization program was far from a socialist confiscation; it was an alienation of ownership made through the payment of compensation. Furthermore, workers still had no say in the management of nationalized industries; instead, new managers were recruited from the private sectors. While the Communist party wanted to continue the wartime coalition in the hope for “socialization” of industry, Labour as a group of political realists chose to solve the problem of industrial restructuring within the confines of parliamentarianism. Labour MPs could push for nationalization largely because it did not go beyond the limits of “state capitalism.”¹⁴

While instrumental in persuading the business community and the middle classes not to ruin the socialist government’s economic policies, the “politics of productivity” had to be complemented with the extension of social welfare programs in order to avoid political alienation of the traditional Labour constituencies. The legislation of the National Insurance Act and the National Health Service Act in 1946 was perhaps one of the most remarkable achievements of the Labour government. It almost fulfilled the Beveridge Report of 1942 and “was the first health system in any Western country to provide free

¹⁴ Alan Warde, *Consensus and Beyond: The Development of Labour Party Strategy since the Second World War* (Manchester: Manchester University Press, 1982), p. 27; Anthony Carew, *Labour under the Marshall Plan: The Politics of Productivity and the Marketing of Management Science* (Manchester: Manchester University Press, 1987), p. 22.

medical care for the population.” Among other major welfare programs extended were the Family Allowances Act of 1945, and the National Assistance Act of 1948.¹⁵

In contrast to the centrality of nationalization in both the Labour policy agendas and the actual policy outcomes, planning was not defined in its own terms. Instead, it was considered as part of the nationalization program. The “cult of efficiency” within the Labour party allowed planning a very limited role in the larger nationalization program. Planning was defined narrowly as the “general control and allocation of resources” for the purpose of “preventing overstrain of the economy.” Through the state control of resource distribution, the Labour leadership expected, capitalist competition over the scarce resources could be avoided; and instead socialist economies of scale would be realized.¹⁶

Compared to nationalization, controls provoked much fiercer and more lingering sense of grievance from the business community largely due to their microeconomic nature. On the other hand, controls were the means by which the Labour government encouraged industry to participate in tripartite consultative machinery. Moreover, active participation in the process of government controls gave more power to trade associations than they could enjoy when they were left alone. Like the preceding Conservative administrations, the Labour government in executing controls relied upon the expertise of industrialists rather than its own policy teams.¹⁷

¹⁵ Dennis Kavanagh and Peter Morris, *Consensus Politics from Attlee to Thatcher* (Oxford: Basil Blackwell, 1989), pp. 74, 76.

¹⁶ Geoffrey Denton, Murray Forsyth, and Malcom MacLennan, *Economic Planning and Policies in Britain, France and Germany* (London: George Allen & Unwin, 1968), p. 108; Klausen, *War and Welfare*, pp. 70–71.

¹⁷ Nigel Harris, *Competition and the Corporate Society: British Conservatives, the State and Industry, 1945–1964* (London: Methuen & Co., 1972), p. 64.

The narrowly defined notion of planning was also closely related to the poverty of economic policy tools in the hands of the Labour leadership. Neither monetary nor fiscal policy seemed feasible to Labour's economic imagination. Direct and physical controls over industries were believed to allow the government to prevent another recession in the future. This obsession with such microeconomic controls was an indication that during the first postwar years Labour policy paradigm was still based upon its wartime experience rather than aggressive employment of macroeconomic policy packages, whether they be Keynesian or not. "[W]artime controls ... rendered budgetary policy a simple supplement to direct resource planning." From the perspective of wartime mobilization, austerity was the bottom line, not the object to be overcome by active demand management. In order for planning to be successful in a situation of economic austerity, again, appeal for increased productivity was necessary.¹⁸

The Labour government's reluctance to practice Keynesianism could be found also in the pursuit of full employment. It was through the expansion of the public sector within the economy that the goal of full employment was achieved at least in the first years of the Labour government. Instead of New Deal-style pump priming, Labour chose making a direct deal with its core constituencies by creating jobs in newly nationalized industries. "Full employment ... would be achieved through partial nationalization of industry, the full utilization of national resources; the provision of good wages, social services and insurance; tax policy, and planned investment." The very political nature of full

¹⁸ Denton et al., *Economic Planning*, pp. 108–9; Klausen, *War and Welfare*, p. 71; quotation from Hall, *Governing the Economy*, p. 72.

employment policy led to a more explicit emphasis on productivity increases. Prime Minister Attlee in October 1946 stressed:

To match the economics of full employment we need the ethics of full employment. Employers have to realise that those they employ are a national asset that must not be wasted. ... On the other side workers must realise that whether they work for the state or for a private employer they are producing the stock of goods and services from which we all derive the necessities and amenities of life. Restrictive practices on either side which often had a justification in the conditions of a past economy are out of place today.¹⁹

It was in 1947 that the Labour government began to apply Keynesianism as an independent policy package to the management of the economy. As the enthusiasm for nationalization and planning faded, the Treasury turned more favorable to Keynesian policy ideas and gained influence over the policy process. This meant that Keynesian macroeconomic policies were finally adopted as an alternative to direct state intervention. And that explains why Keynesianism was channeled into the policy process with little resistance from the business community and why the Conservative government continued to use the heterodox policy tools during the 1950s and after. While in the United States New Dealers and corporate liberals had to *commercialize* or even *militarize* Keynesianism to persuade the doubting majority of business community, Keynesians in Britain had no need to present their policies in liberal guise. After the long duration of wartime and peacetime controls, Keynesianism was a liberalizing measure for the private sector. The essence of the Keynesian alternative lay in the use of budgetary policy in order to reduce excess demand that had justified the peacetime continuance of controls in

¹⁹ A. A. Rogow, *The Labour Government and British Industry, 1945–1951* (Oxford: Basil Blackwell, 1955), p. 4; quotation from Chris Wrigley, ed. *British Trade Unions, 1945–1995* (Manchester: Manchester University Press, 1997), p. 36.

the face of business complaints. As the economy stabilized, micro-level state intervention lost ground and the “bonfire of controls” followed.²⁰

The domestic compromise that the Labour government managed to institutionalize hinged on Labour’s willingness and capability to defend the status of sterling as an international reserve currency. One of the postwar goals of the Labour government was to maintain Commonwealth ties and it required the continued strength of the pound as an economic medium. The Commonwealth nations were also the main source of the dollar reserves in Britain. The sterling issue was, therefore, directly related to the *structural* power relationship between Britain and the United States; and thus there was little the Labour government could do about it but to maintain domestic expansion to the last minute. By 1948, the United States and Western European countries for their own interests came to the same conclusion that a European-wide devaluation was needed. Devaluation would allow Western European countries to enjoy wider access to the U.S. market, while at the same time facilitating the U.S. foreign economic policy shift from “aid to trade.” The Labour government resisted the devaluation pressure from both European countries and the United States, but its resistance was short-lived. Partly as a result of its domestic expansionary policies, Britain continued to lose its dollar reserves and thereby was forced to choose between devaluation and deflation. The latter was

²⁰ Weir, “Ideas and Politics,” pp. 69, 75; Robert M. Collins, *The Business Response to Keynes, 1929–1964* (New York: Columbia University Press, 1981); James R. Kurth, “Political Consequences of the Product Cycle,” *International Organization* 33 (1979): 1–34; Tomlinson, *Public Policy and the Economy*, p. 219.

politically unacceptable for the Labour government; and eventually sterling was devalued.²¹

Finally, Labour's foreign policy stance was traditional. "[O]n issues of foreign policy the Labour Front Bench seemed to Conservatives to be such reasonable and moderate people." The party leadership pursued the traditional foreign policy goals of the British state that had been perceived as totally separate from economic policies, domestic and foreign alike. The workers' party introduced peacetime conscription, began the nuclear weapon program, and engaged in rearmament to a greater scale than ever. Labour continued to spend more resources than it could afford in retaining its military presence overseas. Continued military expenditure was in turn closely related to the preservation of the sterling area. The obsession with the international leadership role, however, was not applied to European integration. The Labour government avoided any direct involvement more than "close association" in the continental effort to found a "United States of Europe" by taking advantage of its geographical insularity and U.S. aid. "Co-operation with Europe was desirable; integration with Europe was not."²²

²¹ Milner, *Interests, Institutions, and Information*, p. 142; Michael C. Webb, *The Political Economy of Policy Coordination: International Adjustment since 1945* (Ithaca: Cornell University Press, 1995), pp. 66–67, 70.

²² T. O. Lloyd, *Empire to Welfare State: English History, 1906–1976*, 2nd ed. (Oxford: Oxford University Press, 1979), p. 284; Blank, "Britain: The Politics of Foreign Economic Policy," p. 688; Michael Pinto-Duschinsky, "Bread and Circuses? The Conservatives in Office, 1951–1964," in *The Age of Affluence, 1951–1964*, ed. Vernon Bogdanor and Robert Skidelsky (London: Macmillan, 1970), p. 73; Geoffrey Ingham, *Capitalism Divided? The City and Industry in British Social Development* (London: Macmillan, 1984), p. 204; Miriam Camps, *Britain and the European Community, 1955–1963* (Princeton: Princeton University Press, 1964), pp. 2, 4; Daniel Verdier, *Democracy and International Trade: Britain, France, and the United States, 1860–1990* (Princeton: Princeton University Press, 1994), p. 229.

EXPLOITING THE VULNERABILITY OF PARTY POLITICS:
ORGANIZED LABOR AS THE PRINCIPAL OF CLASS POLITICS

As a consequence of being the “first industrial nation,” Britain had a strong body of organized labor with vast experiences both in the workplace and in the polity at large. Labor movements in Britain had developed well before the establishment of Marxist doctrines. But unlike their American counterpart, the British working class had existed and acted as a relatively homogeneous class. Early industrialization had generated a labor market dominated by skilled workers in particular *trades* well before more modern *industries* began to attract a mass of unskilled workers who were driven out of the countryside as landlords withdrew their investments from the soil. As a result, organized labor in Britain had been characterized by the predominance of craft unions. Sectional interests of those unions were the main obstacles to the development of a national organization of industrial workers. Decentralization of authority in union politics went hand in hand with the “distrust of the state” among trade unionists. It was partly because the state had tried to cope with the growing presence of organized labor through *judicial* adjudication rather than *political* interaction. It is useful here to recall that organized labor’s decision to ally with the Labour party was a direct outcome of its disillusionment with the courts in the Taff Vale case of 1901. The party was “in large measure a weapon of the trade-union leaders devised for the reversal” of the court decision that had allowed employers to sue unions for damages incurred during the disputes.²³

²³ Luebbert, *Liberalism, Fascism, or Social Democracy*, p. 164; Henry Pelling, *A History of British Trade Unionism* (London: Macmillan & Co., 1963), pp. 121, 126; Victoria C. Hattam, “Institutions and Political Change: Working-Class Formation in England and the United States, 1820–1896,” in *Structuring Politics: Historical Institutionalism in Comparative Analysis*, ed. Sven Steinmo, Kathleen Thelen, and Frank Longstreth (New York: Cambridge University Press, 1992), p. 170.

This invites another interesting comparison between Britain and the United States. American workers experienced the same kind, if not the same degree, of frustration with legalism; but their response was almost the opposite of British labor's one. With the courts as the principal institution regulating industrial conflict, the American Federation of Labor (AFL) under the leadership of Samuel Gompers chose voluntarism as the best way of defending the collective interests of workers. The AFL deliberately avoided any direct ties to political parties and explicitly opposed the federal government's intervention in the management of industrial relations. By contrast, British workers could counterbalance the antilabor moves of courts in large part because work and politics were not so separate from each other as they were in America.²⁴

Whereas socialist parties armed with Marxist doctrines mobilized working-class movements in most of continental European countries into a political force, the Labour party was from the start a "parliamentary extension" of the trade union movement. More important, from the perspective of trade unions, the Labour party was intended not for the "political organization of a class" but for a "political defense of the sectional interests of their members within the context of continued Lib-Labism." In other words, the British working-class movement had been deeply involved with the structure of liberal politics operated by the rules and procedures of Tory socialists and some interventionist liberals. "By 'politics' [it] meant 'party politics.'" Organized labor's parliamentarianism was further reinforced through the bitter experiences of the Strikes of 1926. The failure of the strikes led trade unionists to conclude that confrontation with the state via direct action

²⁴ Hattam, "Working-Class Formation," pp. 155–56.

does not do any good. Industrial action beyond the limits of political action was considered “unconstitutional.”²⁵

Although the strategy of furthering socialist goals by participating in the “bourgeois” political institutions is not limited to British labor, the emphasis on “parliamentarism” was outstanding even in comparison with other gradualist labor movements in the Continent. While some socialists like Jean Jaurès and Eduard Bernstein considered democracy “the basic tenet of the future socialist society,” for the majority of socialist leaders “paper stones” would have to be replaced with “real stones” whenever the bourgeoisie attempts to overturn the outcomes of democratic politics in favor of socialism. Deep doubts about the bourgeoisie’s commitment to democratic institutions prevailed among the socialists in the Continent; and the Bonapartist coup in 1851 was the constant source of the distrust. What made trade unionists in Britain different from their European comrades was their belief that “counter-revolution would not occur if workers won the majority in the parliament.”²⁶

Britain had to pay the “penalty of taking the lead” also in the area of industrial relations. The dominance of skilled workers within organized labor overwhelmed the early postwar efforts of unskilled workers employed in the so-called “weaker trades” to develop wartime corporatism into a permanent institutional fixture. To the unskilled

²⁵ Hall, *Governing the Economy*, p. 65; Bertrand Badie and Pierre Birnbaum, *The Sociology of the State*, trans. Arthur Goldhammer (Chicago: University of Chicago Press, 1983), p. 78; Luebbert, *Liberalism, Fascism, or Social Democracy*, p. 164; Pelling, *History of British Trade Unionism*, p. 114; Moran, *Politics of Industrial Relations*, pp. 11–12.

²⁶ Ralf Miliband, *Parliamentary Socialism: A Study in the Politics of Labour* (London: George Allen & Unwin, 1961), p. 13; Adam Przeworski, “Social Democracy as a Historical Phenomenon,” *New Left Review*, no. 122, 1980, pp. 30–32; Przeworski and John Sprague, *Paper Stones: A History of Electoral Socialism* (Chicago: University of Chicago Press, 1986), p. 1.

workers who were much more vulnerable to employers' arbitrary decisions, a nationally coordinated wage determination system seemed capable of bringing more protection and benefits to them. But the monopolizing "big" unions such as the Transport and General Workers' Union (TGWU), the National Union of Mineworkers (NUM), the General and Municipal Workers Union (GMWU), and iron and steel trades almost always overrode the wishes of those small unions. Big labor leaders—Arthur Deakin of the TGWU, Will Lowther of the NUM, Tom Williamson of the GMWU, Harry Douglas of iron and steel—used the closed shop and various disciplinary powers against the unofficial strikes that were so widespread throughout the 1950s. Ernest Bevin, who became in 1940 Minister of Labour under Churchill's coalition government, set the pattern of union politics in which big unions monopolized the contact with the government. He put great emphasis on consultation as an effective weapon of the trade unions to extract concessions from employers and the government.²⁷

The key labor organizations within the Trades Union Congress (TUC) were pragmatic in the use of voluntary collective bargaining at the plant level and participation in corporatist machinery for consultation at the national political level. Labor leaders did not tie themselves to one of the two solutions for promoting the interests of trade unions at the expense of the other. At the national political level, organized labor did not want its fate to be determined by the electoral fortunes of the Labour party. The return of the Conservatives to Whitehall in 1951, for example, did not lead to the TUC leadership's withdrawal from the machinery of the state. Labor leaders expected that the second

²⁷ Klausen, *War and Welfare*, pp. 83–86; Ross M. Martin, *TUC: The Growth of a Pressure Group, 1868–1976* (Oxford: Clarendon Press, 1980), p. 271.

Churchill administration would “maintain ... the full practice of consultation” that had brought prestige and power to them. In order to keep their vested interests, the “new men of power” repeatedly suppressed internal opposition to participation in the Conservative-led consultative bodies.²⁸

The ease with which organized labor could take advantage of the two points of negotiation may be accounted for by the fact that the TUC focused on cultivating the ties with Whitehall rather than with Parliament. Two institutions free from the restraints of electoral politics saw each other as a reliable and responsible partner in their joint business of ensuring industrial peace.²⁹ Organized labor’s commitment to corporatist tripartism, however, was ambivalent largely due to its strength within the workplace. When the Conservative government created the Council on Prices, Productivity and Incomes (CPPI) in 1957, the TUC responded to the move in a half-hearted way.

Weak counterattacks from the business community led Anthony Crosland to even state that organized labor “[has] more political power under a Conservative, than private industry has under a Labour Government.”³⁰ The Conservative government was concerned more with locking up labor discontents at an acceptable level than with liberalizing the domestic economy as quickly as the business community wanted. During the first years of the 1950s the Tories even continued some of the Labour-initiated controls on industry in order to make credible its commitment to full employment and welfare state to the trade unions. Although the Conservative efforts to accommodate

²⁸ Martin, *TUC: The Growth of a Pressure Group*, pp. 299–300.

²⁹ Moran, *Politics of Industrial Relations*, pp. 11–12.

³⁰ C. A. R. Crosland, *The Future of Socialism*, abr. ed. (New York: Schocken Books, 1957), p. 20.

organized labor slackened after 1955 with the deterioration of economic conditions, the Tory politicians never pushed for deflationary policies to the point of driving the trade unions into “politically unmediated” industrial action. The memory of the 1926 strikes was traumatic to the Tories as much as it was to the TUC leadership. Organized labor had the political skill to take advantage of this Conservative cautiousness within the limits of the postwar settlement. But we still need to know why the British industrialists failed to take more united action against the government and trade unions.

BUSINESS COMMUNITY BETWEEN PLURALISM AND CORPORATISM:
POLITICAL CONSEQUENCES OF ORGANIZATIONAL WEAKNESS

A consensus can be found within the existing literature on corporatism that Britain falls short of corporatism and that the organizational weakness of business community explains much of the British defection from the corporatist model. But such a consensus rests upon the ideal type of corporatism that can be empirically found in a group of European countries with social democratic hegemony and/or a high degree of trade dependence like Sweden, Austria, Switzerland, Belgium, and the Netherlands. This comparison between Britain and social democratic Europe, however, needs to be balanced with another comparison between Britain and the United States. When the corporatist literature groups the two countries in the category of liberal pluralism, it ignores institutional differences between class politics in Britain and sectoral politics in the United States by insisting on a strict definition of corporatism. If we relax such a definition and conceive of corporatism as a “continuous rather than dichotomous” variable, however, a theoretically more rewarding comparison can be made between

Britain and the other countries that are equally non-corporatist according to the existing literature.³¹

Another point that should be discussed on the British variant of corporatism is the role of the state in organizing societal interests. As I show below, British governments, both Conservative and Labour, had played more than a mediator role in the construction of consultation system since the 1930s. Particularly, governments made great efforts to incorporate the business community into the policy process along with already well-organized trade unions. In some cases, organizing pressure from government was the main force that allowed British industrialists to come together as a community. This observation has been often tied to a bolder association between the institutionally guaranteed strength of cabinet government and the weakness of corporatism in Britain. For some authors, therefore, state intervention is a more apt heading than corporatism (with any adjectives) in describing the pattern of policymaking in Britain.³²

Failure of societal groups, whether they are labor or employers, in organizing themselves into political actors prompts strong and even *dirigiste* actions on the part of the state. In Britain, however, what motivated the successive governments to promote tripartism was not so much the belief in the rational state bureaucracy as government's "self-imposed" dependence on the expertise of industrialists and trade unions. There is wide agreement among analysts of British politics that politicians and civil servants had made no serious attempts to create a regulatory state exemplified in the New Deal-style

³¹ Hall, *Governing the Economy*, pp. 268–71; Peter J. Katzenstein, *Corporatism and Change: Austria, Switzerland, and the Politics of Industry*; *Small States in World Markets: Industrial Policy in Europe* (Ithaca: Cornell University Press, 1984; 1985).

expansion of the federal government. Whitehall was an administrative center in its traditional sense; it lacked a departmental structure that reflected the segmentation of society and the economy.³³

Throughout the 1950s organized business failed to send out a united voice to the policy process largely because it was divided according to issues instead of industrial sectors. It may be thought that cleavages based on sectoral interests would be more structural in nature than those based on policy issues. But it was not the case with Britain's business community. The Federation of British Industries (FBI) as the most representative business association excluded labor and social policy issues from its agendas and wanted to be consulted by government in the area of national economic policies.³⁴

Although the FBI continued to respect the basic frameworks of the postwar settlement—demand management and full employment—built during the Labour governments, it became increasingly impatient with an assortment of economic outcomes of the compromise. Wages kept rising more rapidly than productivity; labor market especially for skilled workers was too tight; capital control made industrial investment difficult. These all were attributed to the presence of “monstrously huge” public sector.³⁵

³² The subtitle of Hall's *Governing the Economy* is “The Politics of State Intervention in Britain and France.”

³³ Keith Middlemas, *Industry, Unions and Government: Twenty-One Years of NEDC* (London: Macmillan, 1983), p. 2; Weir, “Ideas and Politics,” pp. 63–64, 69.

³⁴ Blank, *Industry and Government*, p. 18.

³⁵ Middlemas, *Industry, Unions and Government*, p. 6.

In the absence of the FBI's willingness and capability to deal with organized labor on the one hand and the increasingly interventionist state on the other, the labor issue was often left to the British Employers' Confederation (BEC). The Confederation had its origin in the National Industrial Conference called into action by the government in 1919; and was thus from the start subject to state intervention. Another organizational weakness lay in the fact that the Confederation did not include the majority of business community. Dominated by a faction, the Engineering Employers' Federation, it was far from an "encompassing organization." The Confederation's influence within the policy process, therefore, was a very limited one, although it had been assigned a place in the interwar corporatist machinery and allowed to represent British employers at the International Labor Organization (ILO). Under the circumstances, the Confederation could hardly be conceived of as an equal partner of the so strong TUC in the management of the domestic political economy. Its passive role was also an outcome of the belief widespread inside the Confederation that industrial relations is not a matter that business should actively take up. It was willing to act as the business representative in labor question to the extent that the question was confined to the narrow problem of wage determination.³⁶

When the economic crisis hit Britain hard in 1955, the Conservative government sought to persuade the business community and organized labor to engage in another round of voluntary restraint deals. Conservatives did so in a hope of copying the success of the Labour government's restraint deal struck by Stafford Cripps, Chancellor of the Exchequer, with the support of the TUC. The government's proposal, however, was

³⁶ H. A. Clegg, *The System of Industrial Relations in Great Britain* (Oxford: Basil Blackwell, 1972), pp. 406–7; Blank, *Industry and Government*, p. 18.

turned down by both trade unions and business leaders. Neither of the two sides of industry would accept the share of responsibility imposed by the government. Instead, both organized labor and the business community called for more fundamental changes in economic policies to their favor.³⁷

The crisis of 1955 led the Tory government to reconsider the postwar commitment to full employment as the top priority in the management of the national economy. The publication of a White Paper entitled *The Economic Implications of Full Employment* was a green light for the business community that had needed justifications for denying wage increases. While still emphasizing the link between productivity and mass consumption established by the Labour policy statement in 1948, the document warned that economic costs would be considerable if excessive wage claims were not suppressed. But at the same time Conservatives did not want to break the ties with the unions; so they enticed industry to take “politically unpopular” actions on “economically sound” grounds. The engineering and shipbuilding employers were the first to respond to the government’s signal; they rejected major wage claims. It right away provoked lengthy strikes; the government, fearful of the spread of industrial conflict, soon pressured the employers to follow conciliatory policies: another wage increases.³⁸

Thus the acceptance of the postwar settlement on the part of the business community was an outcome of organizational weakness rather than an expression of social purpose internalized by industrialists. Business leaders were divided along the sectoral lines and

³⁷ Blank, *Industry and Government*, p. 129–30; idem, “Britain: The Politics of Foreign Economic Policy,” p. 693.

competed over the scarce workforce. Instead of dealing with organized labor at the industrial or national level, employers looked to the government for stronger and more effective intervention. While the government delayed explicit moves, they could not delay collective bargaining at the plant level. It would be unfair, therefore, to ascribe weak corporatism in Britain simply to the failure of business community to organize itself. In the words of Nigel Harris, "In full pluralistic corporatism, the preservation of existing harmony required inaction by the Government on its own; and yet, in practice, the presumed harmony itself generated crisis; the antidote pursued by the Government only further eroded the 'harmony'." As Margaret Weir has aptly said, "In Britain, Keynesianism meant freedom from excessive intervention"; and the business community had to pay for the freedom.³⁹

PARTY DIFFERENCES MAKE NO POLICY DIFFERENCES?

CLASS COMPROMISE ON A SHAKY FOUNDATION OF ADVERSARIAL POLITY

In the major policy areas including the mixed economy, full employment, the role of the trade unions, the welfare state, and foreign and defense policy as well, Labour and the Conservatives took almost the same positions during much of the postwar period. The strong record of "policy emulation" between the Labour and Conservative governments led many commentators and analysts of the British political economy to characterize it as a "politics of consensus." "Butskellism," a term coined by *The Economist* to designate the

³⁸ Colin Crouch, *Class Conflict and the Industrial Relations Crisis: Compromise and Corporatism in the Policies of the British State* (London: Humanities Press, 1977), p. xiv; idem, *Politics of Industrial Relations*, pp. 36–37; Klausen, *War and Welfare*, p. 88.

³⁹ Harris, *Competition and the Corporate Society*, p. 156; Weir, "Ideas and Politics," p. 85.

economic policy convergence between the Tories and Labour, thus became the watchword for collaborative politics in favor of the postwar settlement. However, the consensus argument has been criticized for concealing the persistent conflict between the two parties, and between either party (especially in office) of the two and organized interests. Peter Hall has attributed the consensus at the political level in part to the uniquely homogeneous nature of the British elite. Old boy networks that result from similar social origins and the exclusionary education system of public schools and Oxbridge densely permeate the corps of civil service and produce similar policy outlooks. W. L. Guttsman in his classic *The British Political Elite*, however, criticized Samuel Beer's characterization of the British polity as a "democratic one-party government" for "neglect[ing] the fact that the apparent consensus reflects the activities of the parties and of their propaganda as much as it is responsible for it."⁴⁰

In this section I do not address the question of whether the consensual polity in Britain was a myth or not. Instead, I focus on the institutional arrangements that led the Tories and Labour to converge on the policy mixture of Keynesianism at home and the strong pound abroad. Majoritarian voting system and its effects on party politics were the formal institutions that produced the consensus "on the surface." Under the sea of informal institutions, however, remained the structure of weak corporatism unchanged, making the consensus at the political level vulnerable to economic conditions, particularly the international status of the pound.

⁴⁰ Kavanagh and Morris, *Consensus Politics*; Samuel Brittan, *Steering the Economy: The Role of the Treasury* (London: Secker & Warburg, 1969), p. 112; Hall, *Governing the Economy*, p. 62; Guttsman, *The British Political Elite* (New York: Basic Books, 1963), p. 317; Beer's argument is in "Democratic One-Party Government in Britain," *Political Quarterly* 32 (1961): 114-23.

When the Conservatives returned to office in 1951, they were eager to “overcome the Party’s pro-business and anti-labor image.” Churchill endorsed the presence of organized labor by calling it “an estate of the realm.” His prolabor rhetoric was followed by substantial policy measures. Churchill appointed Walter Monckton, whose partisan affiliation was weak, as Minister of Labour because his ambiguous partisanship was expected to contribute to building an amicable relationship with trade unions. As expected, Monckton “rarely acted without the prior consent of the General Council” of the TUC. During the Labour government in 1945–1951 one of the most controversial issues was the contracting out versus contracting in of political levy. Conservatives were consistent in their efforts to push for contracting in; but after 1951 the issue disappeared from the party agendas. As a whole, Conservatives throughout the 1950s were reactive rather than proactive in dealing with organized labor; and their reaction was cautious and taken to minimize the possible disruption effected by trade unions. The guiding principle of the Conservative labor policy was non-intervention into the “house of labor.” Several attempts by some Tories to make an inquiry into the internal affairs of unions were frustrated due to the party leadership’s insistence on hands-off policy. Compared to the United States where the Senate in 1955–1957 could investigate union abuses of welfare funds, British labor was assured of more privileged status by risk-averse politicians.⁴¹

By the 1950s the Tory leadership had included more of younger generation politicians like Anthony Eden, R. A. Butler, and Harold Macmillan. While Churchill was still Prime

⁴¹ Blank, *Industry and Government*, p. 120; Keith Middlemas, *Politics in Industrial Society: The Experience of the British System since 1911* (London: André Deutsch, 1979), p. 406; Moran, *Politics of Industrial Relations*, pp. 15–16; Richard A. Lester, *As Unions Mature: An Analysis of the Evolution of American Unionism* (Princeton: Princeton University Press, 1958), p. 46.

Minister, this new moderate group's influence within the party grew steadily. The rise of the moderates was a result of party politics dynamics. The 1945 defeat allowed the moderate faction within the Conservative party to advance their more accommodationist policy ideas at the expense of the traditional Tory advocates of the minimal state. The policy statement for the 1951 election explicitly wooed the support of organized labor.

Conservatives believe that free and independent trade unions are an essential part of our industrial system. We welcome the public endorsement by the trade union movement of the need for effort to increase production and productivity. We shall consult the leaders of the trade union movement on economic matters and discuss with them fully, and sympathetically, any proposals we or they may have for action on labour problems.

During the 1955 election campaign Conservatives retained the support for consultation with both trade unions and employers.⁴²

Labour's response to Tories' reformist stance, however, was negative and defensive at least during the first half of the 1950s. Its first reaction to the Conservatives' return to power was "a feeling of grim satisfaction that the Conservatives would now be revealed in their true colours as a reactionary party." Labour's historic achievements like full employment and comprehensive welfare programs would be entirely dismantled or at least reduced to insignificance by the party of financial and industrial capital. When the Churchill government abolished economic controls altogether, Labour's forecast seemed correct. The economic boom of the early 1950s, however, vitiated the Labour argument that decontrol would cause recession. Labour leaders, left and right alike, viewed that Keynesianism without direct controls would not work in a direction of boosting economic growth. It meant that Keynesian policy tools were not given a central place within the

⁴² Klausen, *War and Welfare*, p. 60; Verdier, *Democracy and International Trade*, p. 230; Wrigley, ed., *British Trade Unions*, pp. 45 (quotation), 46.

Labour policy paradigm, despite the four years of experimentation. The Conservative government, with policy innovation and luck, could bring sustained economic growth without reducing the scope of the welfare state. As a consequence, the Labour party was “left as defenders of full employment and the welfare state when they did not seem to require defenders.”⁴³

Within the Labour party the shift toward the middle became visible when Hugh Gaitskell rose to leadership in 1955. The new party leadership realized that political rhetoric in favor of the class struggle and socialism had made it difficult for the party to assume the role of “modernizer” that would provide the British economy with institutional environments for industrial revival. The ideological contents of the new Labour leadership became widely disseminated with the publication of Anthony Crosland’s *The Future of Socialism* in 1956. In the book, Crosland argued that there is no need for Labour to insist on nationalization and physical controls because the ownership of the means of production was losing relevance in an industrial society where the proportion of the middle class was growing. Higher productivity and sustained economic growth, the argument went, should receive more attention than the problem of public ownership. Industrial relations must be improved through the active adoption of joint consultation in the public as well as private sectors, while at the same time public enterprise needed to be more efficient. Although Crosland pointed to the limits of

⁴³ Vernon Bogdanor, “The Labour Party in Opposition, 1951–1964,” in *Age of Affluence*, ed. Bogdanor and Skidelsky, pp. 79–81.

“Keynes-plus-modified-capitalism-plus-Welfare-State” throughout the book, his case for “new socialism” approached the economist’s ideas.⁴⁴

But at the same time the 1950s saw the reemergence of a neoliberal outlook within the Conservative party. As soon as they returned to power, Conservatives rolled back some of the Labour reform measures including the nationalization of the steel industry and the establishment of Development Councils. The sterling crisis of 1957 gave more strength to the laissez-faire Conservatives who had wanted to return to market individualism. The CPPI was established in order to provide deflationary policies with a consultative guise, which had the effect of prompting the trade unions to break the ties with “voluntary corporatism” sponsored by the government.⁴⁵ This brief overview of British party politics during the 1950s shows a mixed record of consensus and conflict.

Kenneth Waltz, despite his later reputation as a *systemic* structuralist, was among the earliest analysts who tried to explain the British pattern of consensus politics as a result of the two-party system in which close party competition often leads to the attenuation of party difference in the formulation and implementation of policies. To advance such an argument Waltz heavily drew on the economic model of spatial competition constructed by Harold Hotelling, who had argued that competition between two shops leads to their proximity to attract more customers, and applied by Anthony Downs in his *An Economic Theory of Democracy* (1957) to explaining party competition; hence the “median voter” model. Downs assumed that the median voter on a left-right continuum casts his/her vote

⁴⁴ Klausen, *War and Welfare*, p. 60; Ingham, *Capitalism Divided*, p. 213; Crosland, *Future of Socialism*.

⁴⁵ Blank, *Industry and Government*, p. 123; Verdier, *Democracy and International Trade*, p. 229; Crouch, *Class Conflict and the Industrial Relations Crisis*, pp. 71–74.

to either of two parties nearer to him/her. In order to maximize votes, two parties approach the point at which the median voter is located. In the ideological spectrum in which party competition is assumed, the farther a party places itself from the median voter the more marginalized it becomes. Such a positioning does not pay.⁴⁶

By means of this economic reasoning, Waltz wanted to explain why ideologically so different parties end up selling almost the same policies to the electorate. He admits that there exist more party differences in Britain than in the United States, but without providing any serious thoughts on what makes the British two-party system more adversarial. Such a task requires us to look at the British two-party system in direct connection with the Westminster-style cabinet government. Throughout the 1950s the two major parties were in close competition on the electoral markets. A brief look at the general election results shows how close party competition was.

TABLE 3.1
General Election Results, 1951–1959

	<i>Total Votes Cast</i>	<i>Conservative</i>	<i>Labour</i>
1951	28,595,668 (100%)	13,717,538 (48.0%)	13,948,605 (48.8%)
1955	26,760,493 (100%)	13,311,936 (49.7%)	12,404,970 (46.4%)
1959	27,859,241 (100%)	13,749,830 (49.4%)	12,215,538 (43.8%)

Source: Michael Pinto-Duschinsky, "Bread and Circuses? The Conservatives in Office, 1951–1964," in *The Age of Affluence, 1951–1964*, ed. Vernon Bogdanor and Robert Skidelsky (London: Macmillan, 1970), p. 71.

⁴⁶ Waltz, *Foreign Policy and Democratic Politics*, pp. 83–93. For a good review of the Downsian model, see Brian M. Barry, *Sociologists, Economists and Democracy* (London: Collier-Macmillan, 1970), pp. 99–108.

The impact of electoral system on the policy process is evident in the British case. The 1951 election was a good example of the “mathematical injustice” of the winner-takes-all electoral system. Churchill formed his second government with a parliamentary majority of only seventeen seats; and this was achieved with fewer votes than those cast for Labour.

The impact of party politics on the stability of class compromise is subtle and may seem even insignificant from the standpoint of those who would argue that *in one way or another Western nations came to the postwar settlement*. Such a view tends to ignore equally subtle variations that exist from country to country in reshaping the structure of welfare state. As I discuss in more detail, the Thatcherite shock therapy against the British welfare state can be explained as a consequence of party politics combined with weak corporatism. Without an institutionally consolidated system of corporatist consultation, the constitutionally guaranteed cabinet government in the hands of neoliberal politicians could push for the retrenchment of the welfare state much further than it was possible in European countries. Nor did Britain have the linkage between military Keynesianism and welfare capitalism that allowed the Reagan administration to cut back social spending with less macroeconomic disruption and political turmoil than its British counterpart.

Although Britain and the United States both are assumed to fall into the category of majoritarian two-party system, there are telling differences between the two polities distinct institutional arrangements make. In the United States, the irrelevance of class politics combined with the system of separation of powers between the executive and legislative branch to produce accommodationist policy outcomes similar to those observed mostly in the polities using proportional representation (PR) system. Pluralistic

competition among various social and economic groups over the policy process *crosscuts* rather than is directly reproduced in the two-party system. As I have discussed in the previous chapter, drawing on the work of James MacGregor Burns, the American two-party system contains possibilities of cross-party alliances that vary with policy issues in question. Interest group politics in the United States is closely related to the phenomena of divided government and intraparty cleavages. The connection has been strengthened with the rise of “personal presidency” since Franklin Roosevelt greatly expanded the role of executive. “[A] majoritarian president that cannot rely on the support of his own party ... must engage in ‘horse trading’, in buying votes, one by one, from single members of parliament.” Strong personal presidency relies more heavily upon a wide variety of “side payments” than upon intraparty discipline.⁴⁷

This view of the American consensual polity allows us to see executive politics in the United States as involving more than the expanding role of the White House and the federal bureaucracy. If one measures the degree of executive politics purely in terms of power concentrated in the executive branch, the Westminster model would stand far ahead of the U.S. model in providing unity to the incumbent. There is no chance of divided government by definition; there are little chances that judicial power encroaches upon government policies because “[t]he Courts can only examine matters that fall within

⁴⁷ Burns, *The Deadlock of Democracy: Four-Party Politics in America* (Englewood Cliffs, N.J.: Prentice-Hall, 1963), p. 257; Theodore J. Lowi, *The Personal President: Power Invested, Promise Unfulfilled* (Ithaca: Cornell University Press, 1985), chap. 4; Milner, *Interests, Institutions, and Information*, p. 109. Quotation from Giovanni Sartori, *Comparative Constitutional Engineering: An Inquiry into Structures, Incentives and Outcomes* (London: Macmillan, 1994), p. 177. The notion of crosscutting of social cleavages into political competition and its stabilizing effects is, of course, not a new one. Its earlier form may be found in David Truman’s discussion of “overlapping memberships” in *The Governmental Process: Political Interests and Public Opinion* (New York: Alfred A. Knopf, 1958 [1951]), pp. 506–16, although I wish to add more class connotations to the pluralist argument as Thomas Ferguson has done in his works.

Statute of Common Law ... cannot question [parliamentary] proceedings.”⁴⁸ Because of these constitutional guarantees, however, executive politics in Britain has failed to produce an enduring consensual polity. One-party government has a virtue of making clear the locus of responsibility for governance but at the same time encourages the other party in opposition to take ideologically extreme stances.

BRITAIN'S IMPASSE IN AN ERA OF EMBEDDED LIBERALISM:
DOMESTIC COMPROMISE AND AFTERGLOW

The British case shows an interesting contrast with the American one in the intertwining of the liberal subsystem and the domestic political economy. With the conclusion of World War II the United States took the opportunity of shaping the liberal subsystem after the model of the New Deal regulatory state. Although such an Americanizing attempt fell far short of the U.S. policymakers' design, the newly acquired status of liberal hegemon added strength to the Rooseveltian “motley crew” coalition in continuing reform politics domestically. Shared awareness of the U.S. international commitments in providing the liberal subsystem with stability was a positive factor behind the Eisenhower administration's continued endorsement of the New Deal welfare state. It must be noted here that the United States could achieve with relative success the dual goal of participating in the regime of embedded liberalism and institutionalizing domestic compromise partly because of the congruence between its domestic resources and international commitments. Although the American solution was feasible only to the

⁴⁸ Bernard Crick, *The Reform of Parliament: The Crisis of British Government in the 1960s* (London: Weidenfeld & Nicolson, 1964), p. 5.

extent that the politics of growth worked to silence the oppositions of various stripes and thereby highly vulnerable to economic fluctuations, the United States during the 1940s and 1950s had enough resources to underwrite embedded liberalism while domestically keeping the welfare state intact.⁴⁹

By contrast, Britain had a political economy least suitable for “making embedded liberalism work” among the major participants in the new liberal subsystem. Britain had enjoyed the status of liberal hegemon mostly during the nineteenth century when the order of the day was disembedded liberalism. As the “first industrial nation” Britain had the competitive edge over other countries not just in production but also in finance. Capital abundance with a solid manufacturing base allowed Britain to dominate the structure of international trade. Although the repeal of the Corn Laws in 1846 benefited urban workers by providing them with “cheap bread,” the unilateral action toward free trade reflected shifting interests of some “diversified landowners” away from agriculture⁵⁰ rather than a social purpose of accommodating working-class demands. Moreover, the British-led liberal subsystem during much of the second half of the nineteenth century comprised political regimes as diverse as Bonapartist France, Wilhelmine Germany, and America in the Gilded Age. Social purposes in those regimes

⁴⁹ See Anne-Marie Burley, “Regulating the World: Multilateralism, International Law, and the Projection of the New Deal Regulatory State,” in *Multilateralism Matters: The Theory and Praxis of an International Form*, ed. John Gerard Ruggie (New York: Columbia University Press, 1993), pp. 125–56; and my discussion in Chapter 2, especially with respect to Alan Wolfe’s argument in *America’s Impasse: The Rise and Fall of the Politics of Growth* (New York: Pantheon Books, 1981). On the concepts of “resources” and “commitments,” see Brawley, *Afterglow or Adjustment*, chap. 1.

⁵⁰ Cheryl Schonhardt-Bailey, “Specific Factors, Capital Markets, Portfolio Diversification, and Free Trade: Domestic Determinants of the Repeal of the Corn Laws,” *World Politics* 43 (1991): 545–69.

were much more divergent than in the 1950s when national polities were relatively homogenized.

Embedded liberalism requires its participating governments to practice both domestic compensation and democratic politics for its best fit with different national political economies. When domestic compensation is provided not as an outcome of the democratic policy process but as a paternalistic integrative strategy, the result is closer to the Bismarckian *Sozialstaat* than the consultative welfare state. Such an embedded illiberalism or authoritarianism has complex implications for the stability and security of the liberal subsystem. The causes of the two world wars include the expansionist intentions of such illiberal challengers as Germany, Italy, and Japan. Conversely, when democratic regimes do not produce any significant institutional arrangements for compensating economic and social losers, they become vulnerable to redistributive struggles at home that in turn undermine incentives to actively participate in the liberal subsystem. Illiberal powers are tempted to revise the rules of the subsystem even by brutal force. On the other hand, the dominance, economic and military alike, of those disembedded liberal countries within the subsystem often leads to the alienation of and resistance from underprivileged countries. Empty peace was not too distant from war at least in the light of the two great wars' experiences.

Although Stephen Leacock as early as 1932 tried to advocate the Imperial Preference System as the model for the world of "check[ing] and control[ing] the unrestrained action of individualist production," Britain's interwar experiment fell far short of a comprehensive regime for regulating international trade and finance. Its focus was on how to handle the flows of goods and capital within the jurisdiction of the British empire.

Serious policy ideas regarding a social purpose that could be shared within the system were missing. Following the typology constructed by Beth Yarbrough and Robert Yarbrough, the Imperial Preference System was closer to “minilateralism” rather than “multilateralism” in the Ruggiean sense. Power still prevailed over social purpose.⁵¹

However, it would be misleading to assume a direct relationship between the instability of the domestic compromise and afterglow aspects of some British policies. Doing so would be to second Correlli Barnett’s gloomy conclusion about the effects of World War II on the industrial decline and social degeneration of postwar Britain:

As that descent took its course the illusions and the dreams of 1945 would fade one by one—the imperial and Commonwealth role, the world-power role, British industrial genius, and, at the last, New Jerusalem itself, a dream turned to a dank reality of a segregated, subliterate, unskilled, unhealthy and institutionalized proletariat hanging on the nipple of state maternalism.

Explaining the sources of the so-called British disease requires more than that: a close examination of domestic institutional arrangements, both formal and informal, for embedded liberalism compromise. A non-exceptionalist approach to the political economy of postwar Britain should address the question: “How British is the British sickness?” As I have implied in this chapter, the roots of the British sickness can be located in the incongruence between corporatist organization of societal interests and adversarial two-party politics. But incongruence does not necessarily mean incompatibility. As Stephen Blank reasoned, “[t]he breakdown of the consensus on economic policy and the worsening relations between producer groups and government ...

⁵¹ Leacock, *Back to Prosperity: The Great Opportunity of the Empire Conference* (Toronto: Macmillan, 1932), p. 4; Yarbrough and Yarbrough, “Cooperation in the Liberalization of International Trade: After Hegemony, What?” *International Organization* 41 (1987): 1–26; John Gerard Ruggie, “Multilateralism: The Anatomy of an Institution,” *International Organization* 46 (1992): 561–98.

was much less the *cause* than the *effect* of the deteriorating economic situation.”⁵² Other combinations of informal and formal institutional arrangements have been also subject, of course with varying degrees of vulnerability and sensitivity, to the fluctuations of the world political economy.

A main theme running through this study is that tension between domestic institutions for class compromise and the postwar liberal subsystem is something that a “club of like-minded states” should live with if it can accept neither disembedded liberalism nor embedded illiberalism. In Britain, the Conservative governments, organized labor and the business community during the 1950s managed to keep on following the middle course between “a more traditional liberal economic order” and “a far more interventionist system.” Adversarial polity that has been so often blamed for Britain’s poor economic performance played the role of making the voice of labor heard on the policy process through two-party competition over the working-class votes. It was associated more with “stability and integration” than with “instability and polarization.”⁵³ There is no such thing as the perfect domestic match for embedded liberalism. I return to this discussion after examining the other two *imperfect* domestic regimes for reconciling domestic compensation with international liberalization.

⁵² Barnett, *Audit of War*, p. 304 (quotation); Samuel Brittan, *The Role and Limits of Government: Essays in Political Economy* (Hounslow, Middlesex: Maurice Temple Smith, 1983), pp. 219–38; Blank, “Britain: The Politics of Foreign Economic Policy,” p. 691 (emphasis in original).

⁵³ Blank, “Britain: The Politics of Foreign Economic Policy,” p. 721; A. M. Gamble and S. A. Walkland, *The British Party System and Economic Policy, 1945–1983: Studies in Adversary Politics* (Oxford: Clarendon Press, 1984), p. 38.

CHAPTER FOUR

Creating Welfare State out of Economic Modernization Pluralism and Adversarial Polity in France

LIBERAL SUPPORTER EXPLOITING THE U.S.-LED SYSTEM

THE END OF World War II led France to face challenges quite different than the ones the other major participants in the liberal subsystem, the United States and Britain, had to deal with. In the latter two countries, albeit in varying degrees, postwar settlements meant the continuation and extension of the domestic compromise between organized labor and the business community begun in the second half of the 1930s (the United States) and in wartime (Britain). In contrast, France “entered the postwar transition without promises of a French equivalent of the “New Jerusalem.”” During much of the previous postwar period, the 1920s and 1930s, France remained tied to the system of the gold standard. It was not until competitive devaluations starting in 1931 “brought the Depression to France” that the country finally jumped on the policy bandwagon of breaking off the “golden fetters” and turning to heterodox alternatives. It was simply because that “monetary stability did not guarantee economic stability so long as economic activity in North America and other parts of the world continued its downward march.”¹

¹ Jytte Klausen, *War and Welfare: Europe and the United States, 1945 to the Present* (New York: St. Martin's Press, 1998), p. 255; Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca: Cornell University Press, 1986), p. 154; Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939* (New York: Oxford University Press, 1992), p. 311.

The Poincaré franc was directly related to the predominance of orthodox policies over the domestic political economy. Although France may score higher than Britain in its experimentation with a set of quasi-Keynesian policy tools during the Front Populaire, the political power of Keynesian ideas was almost non-existent. Keynesianism seemed to French policymakers as little more than a British (or “Anglo-Saxon”) import unsuitable for the French soil. Instead, they continued to stick to the century-long “habits of heart,” Malthusianism, “which emphasize[d] preservation of the status quo, small-scale enterprise, and jealous protection of existing turf.”² This deep-seated conservatism in French economic policy paradigm was considered by reformers like Pierre Mendès-France and Jean Monnet—in spite of differences between the two in policymaking style and economic philosophy itself—the most urgent obstacle to be overcome in the rebuilding of the postwar economy. And they realized that the lack of policymaking centers coordinating various aspects of the economy was a reflection of the Malthusian economic paradigm.

The peculiarity of the French case in comparison to other liberal club members lay in the fact that its attempt to break with orthodoxy had been ruptured by military defeat in the “phony war” of October 1939 to May 1940. The Blum experiment, of course, had failed and the prewar pattern of economic policy had returned well before the Nazi troops marched into Paris. It was under the Vichy regime that France experienced a quasi-corporatist system of governing the economy. France emerged from the Second World

² Pierre Rosanvallon, “The Development of Keynesianism in France,” in *The Political Power of Economic Ideas: Keynesianism across Nations*, ed. Peter A. Hall (Princeton: Princeton University Press, 1989), pp. 172–83; Peter A. Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986), p. 162.

War less as a victorious nation than as a liberated one; and was not in a position to present the Vichy regime as a prototype of “organized capitalism.” Besides the Anglo-American antipathy toward the French variant of fascism, the French themselves, except for some businessmen who benefited from a Vichy-style “rent sanctioning,” had no good memory of the wartime economy. While the country had begun to lose its predominant position even within continental Europe during the 1920s, the German occupation dealt a deathblow to the national pride of the French elites and masses alike.³

The political, economic, and diplomatic consequences of the occupation were deeply felt by the French leaders in the immediate postwar years. Unlike its allies, the United States and Britain, France had no well-institutionalized array of domestic compromise to extend into a postwar settlement of their own. Instead, the nation had to struggle with the humiliating memory of the German occupation, especially the problem of *épuration* of the collaborators. The fact that many collaborators were businessmen closely involved in the Vichy regime divested the business community of the right to participate in the process of reconstruction. The gravity of power in the terrain of Libération politics tilted toward the Communists (PCF) who strengthened their legitimacy within the provisional government through their struggles against the Nazis and its “vichyssois” puppets. The right wing of the Résistance force, especially the Gaullists, was clearly uncomfortable with the heightened status of the Communists in postwar France, but they could do little but to look over the widespread purge, largely instigated by Communist propaganda. The

³ Matthew H. Elbow, *French Corporative Theory, 1789–1948: A Chapter in the History of Ideas* (New York: Octagon Books, 1966[1953]); Stephen A. Schuker, *The End of French Predominance in Europe: The Financial Crisis of 1924 and the Adoption of the Dawes Plan* (Chapel Hill: University of North Carolina Press, 1976); Richard Vinen, *France, 1934–1970* (New York: St. Martin's Press, 1996), p. 82; Henry W. Ehrmann, *Organized Business in France* (Princeton: Princeton University Press, 1957), chap. 2.

purge was such an inevitable ritual of passage for even the non-Communist political forces that they just let it go. De Gaulle's response to *épuration* as the "national purpose" was that it must be kept to a minimum. He had no intention to stem the tide of "retribution" by risking his political future. One of the *social* consequences was the forced silence of organized business. Of most importance is that French employers avoided any direct and institutionalized contact with workers. The informal institutional vacuum in industrial relations was filled by the state's intervention made on a case-by-case basis. The French state was doing the same thing as did the courts in the United States and Britain: legalizing labor relations.⁴

In the absence of one essential party in compromise making, the French leaders could not push for the corporatist mode of organizing social forces as a way to achieve the dual goals of reconstruction and modernization. Their choice was limited to nationalizations, which did not accompany a wider vision into the framework of the postwar political economy. The three political parties comprising the provisional government repeatedly failed to produce a working consensus on the direction and contents of a postwar French economy and its possible social effects. Nationalizations were the best they could do within the limits of the fragile coalition and the most facile, partly because they accorded with the popular desire for purges. A representative case of such "punitive nationalizations" was Renault, the largest automobile company in the country and one of the largest in Europe. Since its owner, Louis Renault, was a famous collaborator, his

⁴ Richard F. Kuisel, *Capitalism and the State in Modern France: Renovation and Economic Management in the Twentieth Century* (New York: Cambridge University Press, 1981), chap. 7; Maurice Larkin, *France since the Popular Front: Government and People, 1936-1986* (Oxford: Clarendon Press, 1988), p. 124; Daniel Verdier, *Democracy and International Trade: Britain, France, and the United States*,

property was nationalized without any compensation.⁵ Another justification for nationalizations was the need to control the situation of supply shortage because private suppliers could not be depended on in such a difficult time.

As in other liberal participants, a breakthrough for embedded liberalism compromise was provided by the arrival of the Cold War in Europe and the concomitant expulsion of the Communists from the coalition government in 1947. It was also accompanied by the abstaining of the Gaullists from ruling the nation in cooperation with their moderate brethren, who they thought passively followed the policy guidelines of the “Anglo-Saxons” at the expense of French *grandeur*. With the two extreme forces disappearing from the stage, the remaining centrist parties—the Socialists (SFIO), the Christian Democrats (MRP), and the Radicals (RGR)—formed in October 1947 what Guy Mollet called “Third Force” government.⁶ This centrist coalition added strength to such *planistes* as Monnet, Robert Marjolin, Félix Gaillard, and Etienne Hirsch in pushing for the project of reconstruction and modernization with the strong backing of the United States. American support for the planning was both financial and philosophical. France was among the largest recipients of Marshall Plan aid, together with Britain, West Germany, and Italy. Most of the French reformers spent their wartime in either the United States or Britain and were thus highly receptive to the Anglo-American way of economic thinking. They were impressed by the rationality and efficiency of the wartime mobilization machinery in those countries and determined to apply such techniques to their liberated

1860–1990 (Princeton: Princeton University Press, 1994), p. 218; Chris Howell, *Regulating Labor: The State and Industrial Relations Reform in Postwar France* (Princeton: Princeton University Press, 1992).

⁵ Larkin, *France since the Popular Front*, p. 131.

country. It was, of course, the U.S. containment policy against the (part real, part imagined) Soviet expansionism that laid the foundation for the convergence of economic policy ideas.

However, the French planning was far from a dull replication of the New Deal and Fair Deal or the British wartime mobilization system. Monnet and his colleagues frequently disagreed with their American partners who wanted to *liberalize* the French economy internally as well as externally. For the Americans France was not so distant a case from the defeated Germany with respect to the degree of cartelization of the economy. Just as the cartels of German heavy industry were converted into the “arsenals of National Socialism,” the Americans believed, the highly cartelized economy in France provided the Vichy regime with material support. Admitting that the American prognosis was partly correct, still yet the planning team tried to draw the line in accepting the American view of reorganizing the domestic economy. For example, when the U.S. officials wanted to make a linkage between the “wave of nationalizations” and “a return to free trade,” the Monnet team vigorously opposed such a package deal in an Americanizing direction.⁷ The French reformers were well aware that their mission was not to effect a fundamental change in their society but to remodel the backward economy.

This attitude was preserved throughout the Fourth Republic among the government officials in charge of economic policy formulation. As John Zysman pointed out, French governments made efforts to strike a balance between economic growth and social stability, with a special focus on minimizing the transition costs for the “traditional

⁶ Ibid., p. 158.

⁷ Kuisel, *Capitalism and the State*, p. 232.

sectors”; and its major policy tool for that purpose was the state control of credit. In the words of Zysman:

Resorting to arrangements of the financial system that enabled it to target financial flows to specific uses, the government was able to subsidize groups that resisted change while thereby strengthening the market forces that favored growth. ...[T]he government devised a policy mix that primed the growth engine and force-fed it high octane fuel while at the same time stepping on the brakes.

The “stalemate society” of France did not allow itself to be entirely remolded after the American vision of Fordist mass production system. When the French planners led by Monnet prepared the launch of the European Coal and Steel Community (ECSC) with the approval of the United States, for example, many French industrialists opposing the Schuman Plan sought to mobilize anti-American sentiments among the public at large and workers in particular. They stressed the value of European “humanism” as contrasted to American “materialism.” American-inspired liberalization—which in fact meant anti-cartel policies—would, the industrialists argued, cause unemployment among the masses of French workers.⁸ Such business propaganda, though motivated by sectoral interests, was received with sympathy by much of the French traditional sectors including labor. France still contained more illiberal elements than the new liberal hegemon, the United States, could encounter in any other European club members.

Furthermore, France during the 1950s actively called for European integration with a view to enhancing its status within the context of a reconstructed Europe. Two major projects in the early phase of European integration, the ECSC and the European Defense Community (EDC), were strongly advocated by the French policymakers who were eager

⁸ Zysman, *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change* (Ithaca: Cornell University Press, 1983), p. 100; Henry W. Ehrmann, “The French Trade Associations and the Ratification of the Schuman Plan,” *World Politics* 6 (1954): 462–63, 466.

to “recast Franco-German economic relations” and thereby minimizing the security threat from its dangerous neighbor. Although in the case of the EDC French planners were confronted with much fiercer opposition from the Gaullists and had to modify the initial plan, Fourth Republic technocrats led by Mendès-France successfully tied the domestic need for economic modernization to the international need to make the Western Alliance work in the heart of Europe. This accords well with the “limits of U.S. hegemony” thesis; the United States as the dominant power “found itself constantly obliged to compromise with a much weaker, even dependent, France.”⁹

Thus the common goal pursued by the French policymakers in foreign as well as domestic economic policy areas was the modernization of the production system that had long lacked elements of innovation and been war-torn. France’s crucial position in stabilizing security relations in Europe gave the French policymakers much room for maneuver in the newly emerging interdependent subsystem.¹⁰ Neither the creation of the comprehensive welfare state nor the reshaping of the domestic political economy after American liberalism dominated the policy paradigm of the postwar generation of French technocrats. Their policy priority was given to the enhancing of French industrial power so that the country would be able to compete on an expanded European market and

⁹ William I. Hitchcock, *France Restored: Cold War Diplomacy and the Quest for Leadership in Europe, 1944–1954* (Chapel Hill: University of North Carolina Press, 1998), pp. 203–4 (quotations); Frances M. B. Lynch, *France and the International Economy: From Vichy to the Treaty of Rome* (London: Routledge, 1997); Helen V. Milner, *Interests, Institutions, and Information: Domestic Politics and International Relations* (Princeton: Princeton University Press, 1997), pp. 191–200.

¹⁰ John Zysman, “The French State in the International Economy,” *International Organization* 31 (1977): 854–55. The seemingly advantageous geopolitical position also became a source of what Michael Loriaux called the “overdraft economy,” which “denotes a political economy that has become dependent on the allocation of credit by institutional lenders and subsequently highly resistant ... to the government’s efforts to control the growth of credit.” Loriaux, *France after Hegemony: International Change and Financial Reform* (Ithaca: Cornell University Press, 1991), pp. 10, 97.

beyond. Although I think that the use of the term *neomercantilism* for the French case is less illuminating than obscuring, it is difficult to deny that a modern variant of mercantilism motivated the French planners to mix liberalism and state intervention in designing and executing economic reconstruction and modernization. With so many urgent tasks ahead, the French pattern of economic policy at least during the Fourth Republic may be described as “catch-up liberalization” that was an efficient means to overcome economic backwardness.

The preoccupation with catching up with industrial forerunners like the United States and Britain made the French technocrats bypass the institutions of consultation and deliberation in the policy process. The Conseil National de la Résistance (CNR)’s wartime promise that reconstruction would be “accompanied by far-reaching economic and social reforms”¹¹ was partly delivered but without active participation of social groups, especially of labor. The outcome was the underdevelopment of institutions for moderating social conflict. Particularly labor-management relations were institutionalized neither within the workplace nor on collective bargaining tables at the national level.

In this chapter, I do not probe into any possible relationship between a low level of informal institutionalization and the political demise of the Fourth Republic. Instead, I accept the prevailing interpretation that the Algerian crisis was a death knell of the republic. State-led push for economic growth continued well into the Fifth Republic, still excluding organized labor from the policy process. Nor did the business community provide a company-based welfare capitalism that could be found in the United States,

¹¹ Jean-Pierre Rioux, *The Fourth Republic, 1944–1958*, trans. Godfrey Rogers (Cambridge: Cambridge University Press, 1987), p. 63.

where like in France the mode of interest mediation was more pluralistic than corporatist. These institutional failures may explain much of the events of May 1968; but the focus here is to understand how that system worked despite those deficiencies during the 1950s.

BUILDING A LABOR-FREE COALITION FOR MODERNIZATION:
POLITICAL CONSEQUENCES OF MONNET'S LIBERAL ÉTATISM

The literature on the political economy of postwar France, at least before May 1968, has agreed that the process of establishing political capitalism in France, unlike those of the other major industrial nations, was the one without organized labor's participation. In the Libération politics period—specifically, from 1945 to 1947—organized labor seemed to gain more influence than ever on the political process in general and over the course of nationalizations in particular. The Confédération Générale du Travail (CGT) in June 1945 participated in the reestablishment of the Conseil de l'Economie Nationale by sending Léon Jouhaux and Pierre Le Brun as its representatives. The left expected the Council to be the “summit of a system of economic democracy based upon industrial democracy in the factories.” Although Jouhaux was elected President of the Council, the political status of the Council within the government was much lower than the CGT hoped.¹²

By contrast, the CGT's participation in the planning commissions from the outset reflected less its own decision made in order to improve the material conditions of workers and enhance their collective status within the workplace than the PCF strategy of cooperating in the efforts of postwar reconstruction. Communists saw trade unions'

¹² J. E. S. Hayward, *Private Interests and Public Policy: The Experience of the French Economic and Social Council* (London: Longmans, 1966), pp. 13–15.

incorporation into the modernization alliance as necessary because it would make sure to other classes that the working class was a responsible and reliable partner for national projects. Despite the Communist expectation, the modernization alliance did not accept organized labor as a full member. Labor's delegates were mostly bypassed in the discussion of major policy issues. Organized labor's internal problems—"anemic membership, intense rivalries, and anticapitalist ideologies"—also made difficult its full participation in the consultative bodies. The CGT left Monnet's house with the end of the First Plan and never came back until the Eighth Plan.¹³

Organized labor was not the only group that was given short shrift by the core group of policymakers and their industrialist partners. Sectors not deemed essential to reconstruction and dynamic in their operation also were excluded from the decision-making process and not consulted regarding the distribution of state assistance in particular. Those sectors were concentrated on the small- and medium-sized firms that specialized in consumer goods. Since the focus of the immediate postwar economic policies lay in the restoration of basic production facilities and infrastructure, the then extremely scarce resources were earmarked for heavy industry such as coal, steel, cement, and farm machinery. Acute shortage of materials and capital goods further reduced the share of the consumer goods industry because the government restrained consumption by repeatedly pointing to the imperative of production.

Although Monnet so often stressed persuasion (as opposed to command) as the defining spirit of planning and argued for a "round table" of consultation among all affected social groups, the policy process, especially at the implementation stage, was

¹³ Kuisel, *Capitalism and the State*, p. 259; Hall, *Governing the Economy*, pp. 158–59.

bilateral rather than multilateral. To attract conflicting interests into a public good-producing process, the planners widely used “a complicated assortment of state economic favors.” Those selective incentives known as *incitations* could be most efficiently presented as a reward for accepting the terms of planning behind closed doors rather than in an open and conflict-ridden atmosphere of council room. The most effective and needed incentive was government-endorsed credit that was under the control of the Ministry of Finance. The U.S. loan Monnet managed to negotiate in 1946, however, almost exempted the Commissariat Général du Plan (CGP), the planning office, from the need to seek parliamentary approval for its selective industrial subsidies at least for the duration of the Marshall Plan. This bilateralism continued well into the 1950s so that the policy process of planning became described as a “conspiracy in the public interest.” French planners sought to “buy” rather than institutionalize (in a more consultative or corporatist fashion) “the co-operation of private firms” and they succeeded.¹⁴

The planning commission rarely dealt with “organized business” as it existed. “Monnet was unwilling to give to the trade associations any official status, [and] the numerous business representatives ... were invited individually rather than as spokesmen for their organizations.” Even the Conseil National du Patronat Français (CNPF), employers’ peak association, was not considered able to lead its members to follow the details of the planning. Indeed, the CNPF had to protect the majority of its members—“undynamic” firms—from the unfavorable schemes of the CGP. Therefore, the planners preferred to discuss policy matters with select groups of industrialists. Their

¹⁴ Stephen S. Cohen, *Modern Capitalist Planning: The French Model* (London: Weidenfeld & Nicolson, 1969), pp. 5, 21; Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (London: Oxford University Press, 1965), pp. 130–31.

favorite entrepreneurs came largely from the most concentrated sectors because there the planners could meet with one or a few responsible business partners and thereby streamline the decisionmaking process. The “key businessmen” played the role of negotiator who informed their colleague industrialists of the planners’ programs and sought their support in exchange for subsidies. As Peter Hall has tellingly argued, “it was the French planning process that generated business power in France, rather than the other way round.”¹⁵

Monnet’s “indicative planning” was a benign state effort to “educate” industrialists in more rational and efficient ways to normalize the state of economic infrastructure and modernize the production system. The planners had models to emulate and arranged for their businessmen pupils to visit the countries where the “politics of productivity” was imported. During the period of 1949–1952, the productivity mission program sent “a total 2,610 employers accompanied by trade unionists,” mostly to the United States. Monnet’s American advisors in turn visited France to disseminate their success story. However, the CNPF was cynical about the Americanizing campaign and described it as “collective hysteria.”¹⁶

Monnet and his team were well aware what made inevitable the failure of Mendès-France’s scheme for reorganizing the French economy right after the conclusion of the war. Monetary rigor pushed for by Mendès-France as a weapon to fight inflation was “economically sound but politically unfeasible” after years of austerity and contraction.

¹⁵ Ehrmann, *Organized Business in France*, p. 285; Verdier, *Democracy and International Trade*, p. 222; Cohen, *Modern Capitalist Planning*, pp. 68–69; Hall, *Governing the Economy*, p. 168, 231.

¹⁶ Rosanvallon, “Keynesianism in France,” p. 192; Kuisel, *Capitalism and the State*, p. 263.

The Radical reformer who could say, “It’s good to put iodine on a wound, even if the patient squeals,” was a statesman unfit for the era of mass politics that wanted more pliable vote-maximizing politicians. Monnet’s planners, of course, did not want their economic outlooks to be marred by the intrusion of party politics and to the same degree by bureaucratic politics. “The question was how to shelter the planning unit from jealous ministries and politicians, yet still provide it with the authority at the governmental level to draft a plan.” From the beginning, Monnet strongly demanded that the CGP report directly to the Prime Minister. The number of the delegates from the government was kept to a minimum. At the same time he deliberately minimized the staff and budget of the CGP in order to avoid provoking other ministries’ worry about jurisdictional encroachment. The CGP started with a small staff of about 35 officials and its budget was smaller than any other government agency. Monnet’s team chose a small building on the rue de Martignac as the commissioner’s office.¹⁷

Despite these efforts to fend off the attacks from other governmental agencies, the CGP failed to secure a safe and permanent position within the machinery of economic policymaking. Particularly the Ministry of Finance constantly competed with Monnet’s team over the crucial problem of financing the plan. As long as the American loan was distributed through the brokerage of Monnet himself, the challenge from the finance ministry could be repelled in any way. But such a privileged position did not last long. As the Marshall Plan ended with the political stabilization of the core target countries such as

¹⁷ Kuisel, *Capitalism and the State*, pp. 228–29; Rioux, *Fourth Republic*, pp. 64–65; Alexander Werth, *Lost Statesman: The Strange Story of Pierre Mendès-France* (London: Abelard-Schuman, 1958), pp. viii–ix; Hall, *Governing the Economy*, p. 141; Sven Nordengren, *Economic and Social Targets for Postwar France: Studies of French Economic Planning, Social Development, and Industrial Structure, 1940–1962* (Lund: Berlingska Boktryckeriet, 1972), p. 112.

France and Italy, the CGP's independent status rapidly weakened because the coffers of the government had to be filled through taxation. "By 1952, the planning commission had ceased to be an autonomous actor."¹⁸ But it showed how much autonomous state machinery could achieve in economic terms, while leaving society still underinstitutionalized.

"WEAPONS OF THE WEAK": ORGANIZED LABOR
BETWEEN PARTY POLITICS AND STATE INTERVENTION

It has been widely agreed that the postwar settlement in France did not involve an "historical compromise between capital and labor." Unlike other participants in the liberal subsystem, France failed to produce an "institutionalized collective-bargaining system" at either national or plant level. Instead, wages and working conditions were determined through labor market mechanisms, which were often supplemented with state intervention. Association between standardized mass production and consultative industrial relations did not exist outside some large companies such as Renault. Most firms were family owned and managed and still resorted to paternalistic practices for the control of their employees. This "exclusionary settlement" needs explanation, and we already have a list of factors responsible for that: organizational weakness of the working class (in terms of both union "density" and "coverage"), antilabor entrepreneur culture, the underdevelopment of Fordist production system, political division of left-wing parties, conservative-dominated polity indifferent to social issues, and the Cold War.¹⁹

¹⁸ Kuisel, *Capitalism and the State*, p. 230; Verdier, *Democracy and International Trade*, pp. 223–24.

¹⁹ Howell, *Regulating Labor*, pp. 37–40.

First of all, the composition of the labor force affected negatively the development of a “modern” labor movement in France. As of May 1954, about 6.5 million out of 19,182,000, the total economically active population, were categorized as manual workers. The small proportion of workers is outstanding when compared with other countries studied here. About half of the workers were employed in small- and medium-sized firms with less than one hundred employees. Although we cannot degrade France to an agrarian society, it was closer to Italy or Spain where a high proportion of the population was tied to the soil. And France had a sizable body of population self-employed in small business. Since much of the nation still had difficulty getting access to the network of modern transportation, small towns were heavily dependent upon local production and small retailers. France remained a country of the traditional middle class: shopkeepers and farmers. In the period of 1954 to 1962 the proportion of industrial workers steadily increased; but the expansion of industrial employment was outpaced by the growth of employment in the tertiary sectors.²⁰ Workers in the service sectors were largely out of the organizing reach of trade unionists and, instead, often mobilized into conservative, if not Poujadist,²¹ political causes.

Organized labor’s relationship to party politics is a key to understanding why the French labor movement was so militant and politicized while at the same time being so

²⁰ Richard F. Hamilton, *Affluence and the French Worker in the Fourth Republic* (Princeton: Princeton University Press, 1967), pp. 21, 23; John Sheahan, *An Introduction to the French Economy* (Columbus, Ohio: Charles E. Merrill Publishing Company, 1969), p. 22.

²¹ Poujadism, the shopkeepers’ movement named after its founder Pierre Poujade, “appeared as a reaction against the modernization of the French economy” that was materialized into reform policies by Mendès-France. The movement was sparked by the increasing taxes on small shopkeepers in the mid-1950s and rapidly spread into rural areas where many home distillers were hard hit by the prime minister’s anti-alcoholism. Harvey G. Simmons, *The French National Front: The Extremist Challenge to Democracy* (Boulder, Colo.: Westview Press, 1996), pp. 28–29.

unsuccessful in making its voice heard in the policy process. Although there was a strong impression (or prejudiced view) of the French labor movement as being heavily dominated by the Communist party especially at the time of the emerging Cold War, its close affiliation with the Communists was a recent phenomenon when seen from a longer perspective. The largest labor confederation, the CGT, began to be organizationally penetrated by the PCF during the wartime and the immediate postwar years. Communists could approach the CGT leadership without confronting any serious challenges within the labor movement because most of non-Communist trade unionists were either in exile or in Nazi camps. The PCF took full advantage of this absence of organized alternatives as a great chance to establish its political hegemony over the working class and the nation. The party did so by faithfully following the strategy of the “United Front” against fascism dictated by the Soviet-led Cominform. The PCF continued to use United Frontism as the primary strategy to form a broadest possible cross-class alliance that would help prevent the right—Gaullists and the Radicals—from claiming to govern the liberated France.

The Communist view of the CGT during the 1950s was still based on the Leninist concept of “transmission belt” between the laboring masses and the revolutionary vanguard. Trade unions and their national organizations were conceived of primarily as the vehicle of mass mobilization for the *political* goals determined by the vanguard party.²² Thus one of the recurrent conflicts around the relationship between the party and trade unions was the choice between political and economic struggles. The Communist party stood in the tradition of Marx who had scolded French syndicalists for their narrow

²² George Ross, *Workers and Communists in France: From Popular Front to Eurocommunism* (Berkeley: University of California Press, 1982), chap. 2.

“economic”—workplace level—focus and tried to direct workers’ attention to national political duties of the working class. In the context of the Libération period, the most urgent political need for the Communists was to retain their hard-won status of legitimate bidder for national-level power within the new French republic. For that purpose it was essential to show to other political groups that the PCF was equally committed to building a democratic France. During the brief period of 1945–1947 when the PCF was in government, the party directed the CGT into engaging in the “politics of productivity.” The PCF policy program gave “absolute priority” to economic reconstruction. Maurice Thorez, the PCF leader, stressed the commitment to production as “the highest class duty” of workers. In the words of one CGT leader, “The bonus per ton is evil, but coal is necessary.”²³

The PCF, albeit in a much advantaged position, had to compete with its major rival within the left, the SFIO, over the support of the working class. Prior to the war, the distribution of electoral force was favorable to the Socialists because the Communists were then marginal. The Résistance raised the status of the PCF to “the most popular party in France” after the end of the war; and the Communist vote peaked at 28.3 percent in November 1946. Although the popularity of the PCF among the voters in general steadily declined with the onset of the Cold War, the pattern of competition that the Communists succeed where the Socialists fail continued until 1956.²⁴ The repeated

²³ Rioux, *Fourth Republic*, p. 63; Charles S. Maier, “The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Western Europe,” *American Historical Review* 86 (1981): 331.

²⁴ Vinen, *France, 1934–1970*, p. 150.

abortion of the Communist-Socialist alliance, along with the unchanging hostility toward the PCF expressed by right-wing parties, severely limited the choice of the Communists.

After the departure of the PCF from the coalition government in May 1947, the combination of United Frontism and the politics of productivity was replaced by the tactics of extremist sabotage against the working of “bourgeois” parliamentarism. The PCF’s retreat into such defensive tactics, however, provided the CGT with an opportunity to refashion its mode of struggle in the direction of responding more heedfully to economic needs of workers. The PCF, albeit still contemptuous of trade unionist economism, had to accept the strikes at Renault. However, the Communist party in its efforts to defeat the “Marshallization” of France continued to give priority to mobilizing organized labor into political causes like the peace movement against NATO at the expense of meeting the bread-and-butter needs of workers.²⁵

The difficulty in attracting new members was a serious problem not only to the trade unions but also to the Communist party. Wild fluctuations in the number of the unionized deeply influenced the pattern of organizing workers in France. Despite the apparently strict rule that “every member [of the PCF] must be an active member in a base organization,” for a French worker getting a party card was not that hard. All he had to do was “cutting a coupon out of a paper and sending it in.” Nevertheless, the party membership steadily declined throughout the 1950s. It fell from 786,000 in 1949 to 506,000 in 1954, again to 230,000 in 1955. The defection of workers from the party

²⁵ Maier, “Two Postwar Eras,” p. 346; George Ross, “The Perils of Politics: French Unions and the Crisis of the 1970s,” in Peter Lange, Ross, and Maurizio Vannicelli, *Unions, Change and Crisis: French and Italian Union Strategy and the Political Economy, 1945–1980* (London: George Allen & Unwin, 1982), p. 22.

coincided with their departure from the CGT. Ordinary workers were disillusioned with the trade union's political activities dictated by the PCF. Its membership in 1955 hovered around one million. As there was no "dues check-off" system, and the closed shop was rarely accepted, union members had to be recruited "on a day-to-day basis." Today's membership could not be guaranteed for tomorrow's union mobilization. As a result, the CGT became unable to call a major strike, whether political or economic, among the majority of French workers.²⁶

Like the PCF in electoral politics, the CGT also had to compete with other two major labor confederations, Force Ouvrière (FO) and the Confédération Française des Travailleurs Chrétiens (CFTC), over the allegiance of workers. FO was a splinter group that defected in 1948 from the CGT (its official name was the CGT-FO); its organizational base was on civil servants and white-collar professions. FO was in actuality a detachment of the SFIO into the realm of labor politics. The CFTC, a Catholic labor confederation, was made up of largely white-collar workers and closely connected to the MRP. There existed a close fit between party politics and labor politics, which worked not quite in favor of ordinary workers' material interests. Taken together, the three confederations ended up organizing about 2 million workers (approximately 25 percent), while allowing the majority of unorganized workers—"the largest labor organization"—to exploit their non-affiliation status for the maximization of economic concessions from the state, employers, or unions. Such free-riding behavior made sense for ordinary workers because they had no other choices in the absence of either company-

²⁶ Hamilton, *Affluence and the French Worker*, pp. 25, 27, 29, 38; Ross, "Perils of Politics," p. 20; Howell, *Regulating Labor*, p. 45; Ehrmann, *Organized Business in France*, p. 433.

based collective bargaining or national-level corporatist bodies to meet their immediate needs.²⁷

While the CGT alienated the ordinary workers from union activities through its close ties with the PCF, FO and the CFTC failed to extract workers' support because of their organizational weakness at the plant level. The dual weakness of inter-confederation strife and intra-confederation indiscipline made organized labor look unattractive even from the viewpoint of government that needed authoritative representatives of workers to participate in the policy process largely as a way of giving a corporatist façade to what was little more than collusive planning. Furthermore, "the leaders of the largest unions viewed participation in the planning process and other forms of formal interaction with the state ... as no more than a chance to win small concession at the risk of losing ideological purity."²⁸

Despite their organizational weaknesses, French workers managed to squeeze concessions from employers and the government. In the mid-1950s wages increased at an annual rate of 5 percent on average, and despite the fact that France led the trend of inflation among the Western industrial nations workers' purchasing power was not cancelled out. In the immediate postwar years, the motive power of wage increase was not industrial compromise between employers and workers but political compromise made by the Third Force government. By setting the minimum wage in the form of the

²⁷ Hamilton, *Affluence and the French Worker*, pp. 38–39; Charles A. Micaud, "French Political Parties: Ideological Myths and Social Realities," in *Modern Political Parties: Approaches to Comparative Politics*, ed. Sigmund Neumann (Chicago: University of Chicago Press, 1956), pp. 134, 137; Howell, *Regulating Labor*, p. 45.

²⁸ John T. S. Keeler, *The Politics of Neocorporatism in France: Farmers, the State, and Agricultural Policy-Making in the Fifth Republic* (New York: Oxford University Press, 1987), p. 20.

Salaire Minimum Interprofessionnel Garanti (SMIG), the government provided a base line for collective bargaining. Since the bulk of French firms did not practice regularized collective bargaining, the SMIG became an “automatic” regulator of wage levels. “Whenever it was raised, employers moved up wages accordingly, no matter how far above the minimum.”²⁹ State intervention in the labor market precluded rather than induced labor-management agreements on their own terms.

The incongruence between organizational weakness and material gains of French labor can be puzzled out by reminding again that French workers acted, however divided within themselves, as a class in their dealings with the state and employers. As many observers of the French labor movement have pointed out, French trade unionism, of course except for the CFTC, nurtured a conception of “class war” between the proletariat and the bourgeoisie that could not be concluded without a fundamental change in the capitalist system. Neither welfare capitalism nor state provision of social services could resolve the “structural” problem of wage labor under the regime of private ownership. This ideological indoctrination, of course, did not work exactly the way trade union leaders hoped. Rank-and-file workers engaged in collective action less because they believed in the Marxist doctrine than because they could not identify themselves with the French society at large. Relative deprivation of workers lasted longer than the modernization-industrialism literature expected.³⁰

²⁹ Sheahan, *Introduction to the French Economy*, pp. 46, 48 (quotation); Howell, *Regulating Labor*, p. 42.

³⁰ This point was developed in detail in Hamilton, *Affluence and the French Worker*. Also see the discussion in Duncan Gallie, “Trade Union Ideology and Workers’ Conceptions of Class Inequality in France,” in *Trade Unions and Politics in Western Europe*, ed. Jack Hayward (London: Frank Cass, 1980), p. 10.

Significant improvement in the standard of living during the 1950s failed to coopt French workers. Labor discontents continued to erupt throughout the decade and worsened as “the dormant inflation was awakened” in 1954–1955. Interestingly enough, strikes took place more frequently in nationalized firms and more modern corporations than in the private sector and more traditional firms. Not unlike in Britain, the public sector was the major source of full employment and provided its employees with more generous welfare benefits than the private sector did. Government enterprises were also “far more ready to accept unionization of its employees than was private industry.” More modern corporations were in most cases large in size and could afford to maintain a higher wage level. And those companies had less paternalistic outlooks and practice of industrial relations. Instead of moderating labor militancy, however, those enterprise conditions were closely associated with a high frequency of collective action.³¹

For example, in August 1953 public sector workers and some civil servants went into general strikes. Walkouts were widespread among “the postal, telephone, and telegraph services, gas and electricity, the SNCF [railway], the banks, the coal mines, and many categories of municipal employees.” Disputes centered on the government “decrees” regarding welfare benefits for employees of the nationalized sector. Workers that went on strike resented at the changes in eligibility, and trade unions blamed the government for revoking “acquired rights.” Although the strikes led to no significant changes in industrial relations, they revealed the main source of state-labor conflict. The collective bargaining

³¹ Hamilton, *Affluence and the French Worker*; Peter Coffey, *The Social Economy of France* (London: Macmillan, 1973), p. 67; Stephen Bornstein, “States and Unions: From Postwar Settlement to Contemporary Stalemate,” in *The State in Capitalist Europe: A Casebook*, eds. Bornstein, David Held and Joel Krieger (London: George Allen & Unwin, 1984), p. 59.

law of February 11, 1950 excluded 24 government enterprises, most of them were involved in the 1953 strike, from the coverage of the law. Instead, they were subject to government statutes, "legislative and/or administrative." There was no institutionalized channel for prior consultation with workers before decrees were issued. The basic pattern was the same in the private sector. As a result, "French labor has been pitted not against the management of the individual enterprises, but directly against the government, which had final responsibility in wage and related matters."³²

As discussed in Chapters 2 and 3, the underdevelopment of industrial relations regime in the nineteenth century, which had been expressed in legalism, led to different patterns of trade unionism in the United States and Britain: voluntarism and union-led party politics, respectively. In France, legalism was the major policy instruments of the state, not the institutional practice of courts as an independent source of labor policy. Employers avoided building their own industrial relations regimes through the contact with workers. They were eager to find out what was in law and what was against the law in determining how to respond to employee demands. Under the circumstance, weakly organized and internally divided labor chose to make a deal directly with the state. Strong ties between trade unions and political parties made it easier to send labor grievances up to parliament and related government agencies. However, the largest portion of the French working class was the unorganized, for whom political parties did not function quite well as a "transmission belt." With the intermediary institutions so underdeveloped,

³² Warren C. Baum, *The French Economy and the State* (Princeton: Princeton University Press, 1958), pp. 205–6; Val R. Lorwin, *The French Labor Movement* (Cambridge: Harvard University Press, 1954), pp. 320–21.

labor's most efficient means to make their voice heard was protest; and the government responded by abolishing old decrees or creating new ones, at least until May 1968.

BUSINESS COMMUNITY AS THE PARTNER OF THE STATE-LED GROWTH COALITION

In the absence of organized labor's institutionalized participation into the economic policy process, French business leaders were in a more favorable position to cultivate long-term relationship with government officials. In any labor-inclusive regimes, whether corporatist or not, employers often disagree with policymakers over the amount of concessions to make to labor. Since policymakers in democratic settings are largely constrained by the logic of electoral politics, they are more likely to be soft on the working-class demands than employers. The latter often threatens the government with the possibility of walking out of tripartite consultative bodies if the government is considered leaning toward labor beyond the role of "neutral mediator." The same thing happens in the state-labor relations. Therefore, corporatist bargaining is vulnerable to shifts in the balance of power between capital and labor.³³

By contrast, in France where state intervention and pluralism went hand in hand, the state-business relations enjoyed a longer time horizon simply because there was little conflict over the fundamental problems of the political economy. Further nationalizations were no longer on the policy agenda. After five years of Monnet's experiment, business leaders came to the safe conclusion that planning had little to do with regulation

³³ Britain's unstable corporatism, as discussed in Chapter 3, may be an example of the structural vulnerability.

smacking of socialism. Communists were ostracized from the Elysée, and the equally-
abhorred Gaullists remained in the outskirts of parliamentary politics. Renewed
importance of private finance for industrial investment was a material base on which the
business community could stand as a more equal partner of the growth coalition. In other
words, business confidence was fully restored by the beginning of the 1950s.³⁴

The much broader scope of the Second Plan (1954–1957) also contributed to the
restoration of business power as a whole. While Monnet focused on the “return to
normal” and stressed the role of basic (heavy) industries such as coal, steel, construction,
and transportation, Hirsch gave a much higher priority to the manufacturing sector. “But
the really important aspect of the Plan was its insistence on the need to remove restrictive
practices and to concentrate and rationalize the highly protected, small-scale
manufacturing sector.” As I shall show in the next chapter, the Americanization of the
West German economy was made through the dual process of decartelization and
concentration. From a larger perspective it constituted a central pillar of the U.S. policy
toward a more liberal Europe. There existed significant differences between the Germans
and French in domesticating the dual process, however. Since the days of Monnet
planning included antitrust elements that were inspired mainly by the Americans. “On
paper, at least, France’s rules of competition underwent major changes after World War
II.” Just before the Hirsch Plan launched, the Laniel government issued a decartelization
decree that was dubbed by *Le Monde* “the Sherman Act of the Fourth Republic.” Despite
its general denunciation of cartels, the decree included a clause distinguishing good

³⁴ Cohen, *Modern Capitalist Planning*, p. 123.

cartels from bad ones. The upshot was that the balance between decartelization and concentration tipped in favor of the latter.³⁵

The collusive relationship between the planners and business leaders continued, although the influence of the planning commission among the business community already began to wane. Perhaps collusion was the most enduring feature of the French planning and industrial policy. Business leaders' participation in the economic policymaking was not only as partners and providers of expertise outside the government but also as businessmen-turned-civil servants. Conversely, many high-level government officials found their post-public service career in the private sector. "In 1954, for instance, 4 percent of the heads of the private banks in France came from the public service." "[T]he growing interpenetration of private management and the civil service," the practice known as *pantouflage*, was one of the most striking features of the French entrepreneurial state, although it would be an exaggeration when Peter Hall remarked, "the very idea [pantouflage] would be almost unthinkable to British or American businessmen."³⁶ In both Anglo-Saxon countries, too, some businessmen were recruited to direct government agencies and conversely some government officials were hired as corporate managers after their tenure of office ended.

³⁵ Geoffrey Denton, Murray Forsyth, and Malcolm MacLennan, *Economic Planning and Policies in Britain, France and Germany* (London: George Allen & Unwin, 1968), p. 82; Cohen, *Modern Capitalist Planning*, p. 73; Kuisel, *Capitalism and the State*, pp. 260–61; William James Adams, *Restructuring the French Economy: Government and the Rise of Market Competition since World War II* (Washington, D.C.: The Brookings Institution, 1989), p. 210. For the West German case, see Volker R. Berghahn, *The Americanization of West German Industry, 1945–1973* (Cambridge: Cambridge University Press, 1986), chaps. 1 and 2.

³⁶ Hall, *Governing the Economy*, p. 168.

Business elites' partnership with state elites in France, however, was quite different in its social nature from the big business-big government synergy effect that could be found in the United States. As discussed in Chapter 2, in the United States large corporations engaging in standardized mass production accepted the basic frameworks of the New Deal labor regulatory regime with a view to stabilizing their workplace management and thereby enhancing productivity. Since many of those companies were also leaders on the world market, the federal government could spend more of its resources providing welfare services to those outside the private sector's welfare capitalism instead of devising protectionist industrial policy. Sectoral division within industry brought about the segregation of the labor market. Big business and big government took their responsibility for each portion of the labor force.

Such dualism did not exist in France, at least during the 1950s. There were, of course, attempts to create welfare capitalism on a firm level. Renault's works agreement was a case in point. The automobile company, after its nationalization, was operated by innovative management and began to establish the Fordist system of labor regulation. Closely copying the agreement made between the United Automobile Workers (UAW) and General Motors in 1955, the Renault agreement linked wage increase to the cost of living and productivity increase. Collective rights of workers were recognized, and a package of company-based welfare programs was provided. However, Renault had few followers except for some capital-intensive sectors such as machinery and chemicals. Over 80 percent of French firms were small- and medium-sized companies that could not afford that kind of welfare capitalism. While the industrial structure was highly cartelized, the degree of concentration was much lower than it was in other industrial

countries. "The French economy was in fact remarkably homogeneous in the sense of not being divided into advanced and traditional sectors."³⁷ Most companies needed more and more capital investment as the process of state-led economic growth went on. Since they were also latecomers on the world market, the French government had to pour more resources into sheltering national champions than did the governments in the United States, Britain, and even West Germany.

The limited nature of business power in France becomes evident when we recall the fact that "there was not a single political party that was willing to present itself as a defender of big business." Aside from the PCF, the SFIO, and the Poujadists who were "structurally" against industrialists, the Gaullists were not on good terms with the *patronat* because their absence from the Résistance was unacceptable. More importantly, the business community was not favorably received by centrist parties, either. The Radicals preferred to identify themselves with small business and *artisans* (the French equivalent of craft workers); and it reflected the Jacobinist tradition of popular democracy. The MRP was often critical of the business community when enterprise activities were considered eroding the Catholic philosophy of social harmony.³⁸

The predominance of the traditional sector meant that centrist parties could not ignore the sector's electoral influence. The large number of firms in the traditional sector, however, prevented small businesses from organizing themselves into an effective

³⁷ Howell, *Regulating Labor*, pp. 39, 42–43, 45; Sheahan, *Introduction to the French Economy*, p. 44; Cohen, *Modern Capitalist Planning*, p. 72; Kuisel, *Capitalism and the State*, pp. 266–67. For the concept of dualism and its application to the French case, see Suzanne Berger, "The Traditional Sector in France and Italy," in Berger and Michael J. Piore, *Dualism and Discontinuity in Industrial Societies* (New York: Cambridge University Press, 1980), pp. 88–131.

³⁸ Richard Vinen, *Bourgeois Politics in France, 1945–1951* (Cambridge: Cambridge University Press, 1995), p. 56.

political force. Within the CNPF and the CGPME, the small- and medium-sized enterprises' association, alike, small businesses were divided over many issues, often unrelated to market competition, like a family feud. More modern, large-scale corporations mainly due to their small number were in a much better position to organize themselves and attain political power corresponding to their economic power. However, they were more interested in maintaining their almost monopolizing status within the machinery of economic planning than improving the coherence, if not unity, of organized business as a whole.

This point invites another interesting comparison with the United States, where the internationalized, liberal faction of the business community participated in the renewal of the New Deal compromise as an equal partner. The American corporate liberals despite their informal status could compete on favorable terms with their conservative colleagues in the National Association of Manufacturers (NAM) and the U.S. Chamber of Commerce (USCC). One may explain this difference by arguing that the American two-party system discourages the Democrats, let alone the Republicans, to make an explicitly anti-business move (which is the case in Britain, too) and that the United States went far ahead in the direction of corporate capitalism with a strong big business presence. To those differences, I would add, the wide divergence between the two countries in government-business relations. Whereas the Truman and Eisenhower administrations *sought* big business support for consolidating the welfare state, Fourth Republic governments *co-opted* industrialists into the state-led growth coalition who were judged representatives of their branches and amenable to technocratic policymaking.

The business community's attitude toward industrial relations was defensive. Marcel Meunier, Chairman of the CNPF's Social Committee, said, "To drive backwards is sometimes the only way to get the car out of a dangerous spot in which an imprudent driver has been caught in." Meunier opposed government intervention in industrial relations on the grounds that it would lead to collectivism and even totalitarianism. Unlike in other policy areas, the business community showed a high level of coherence in labor and social policy.³⁹ It reflected in part the homogeneity of the French industry in its size of employees and mode of regulating labor.

POLARIZED PLURALISM OR WORKING CONSERVATISM?

THE LIMITS OF POLITICAL CONSENSUS WITHOUT SOCIAL CONSENT

The Fourth Republic has been cited among the representative cases of "polarized pluralism" since Giovanni Sartori in 1966 applied the notion to some European party systems. Common characteristics of polarized pluralist regimes included multiparty system and the ideological nature of party distance. For the two criteria, the Fourth Republic should be considered paradigmatic. Major political parties that exerted influence upon the policy process included the Radicals, the SFIO, and the MRP. The "Third Force" parties in most cases had to form a coalition government with various factions of conservatives. The number of parties became larger when the two extreme parties, the PCF and the Gaullist RPF, were counted. This large number of parties was matched by the fact that those parties were ideologically riven from each other. The cleavages were not just between the left and right. "Residual colonial or religious and

³⁹ Ehrmann, *Organized Business in France*, pp. 422, 425 (n. 9).

ethnic issues—not the baselines of political economy—remained the major sources of passion and controversy.” Deep-rooted conflicts impeded the policy-oriented party competition; instead encouraged the office-seeking behavior of the parties in every reshuffling of the cabinet.⁴⁰

Multipartism and ideologism of the Fourth Republic was based upon the proportional representation (PR) system. Since the PR system produces a close match between votes and seats, the introduction of the party list PR in 1945 greatly contributed to the electoral strength of the Communists and Gaullists. The 1951 change in the electoral law was slanted heavily towards the right-wing political parties at the expense of the two “antisystem parties,” the PCF and the Gaullists who had been organized as the Rassemblement du Peuple Français (RPF) since 1947. The new law allowed parties to form an electoral coalition, which was a difficult job for the two oppositions of principle. Nevertheless, the 1951 elections brought more political say to the Gaullists; and the moderate factions of them decided to participate in the Fourth Republic. In addition, the electoral loss of the SFIO accelerated the collapse of the Third Force coalition.⁴¹

With the possibility of right-wing only government wide open, the Communists and later the Socialists came to face a classic dilemma of left-wing political parties in an electoral democracy: *sticking to principle, or sleeping with the enemies*.⁴² To this dilemma

⁴⁰ Sartori, “European Political Parties: The Case of Polarized Pluralism,” in *Political Parties and Political Development*, eds. Joseph LaPalombara and Myron Weiner (Princeton: Princeton University Press, 1966), pp. 137–40; Maier, “Two Postwar Eras,” p. 347 (quotation).

⁴¹ Andrew McLaren Carstairs, *A Short History of Electoral Systems in Western Europe* (London: George Allen & Unwin, 1980), pp. 179–80; Larkin, *France since the Popular Front*, pp. 157, 166.

⁴² This dilemma of “opposition of principle” versus “catch-all party” has been addressed by Otto Kirchheimer in his “The Transformation of the Western European Party Systems,” in *Political Parties and Political Development*, eds. Joseph LaPalombara and Myron Weiner (Princeton: Princeton University

the PCF responded in a confusing way. On the one hand, the party relaxed its abstentionism during the high tide of the Cold War and readopted the strategy of the United Front, but this time a much narrower one among the left against the conservative-dominated government. On the other hand, the Communists retained their pro-Soviet foreign policy, which had discouraged non-Communist reformist forces to ally with the PCF. The division within the left got worse due to the unwillingness of the Socialists to condone the PCF's deference to the Soviet line with a view to providing an impetus to social reforms. "The PCF was now the millstone around the neck of social progress in France."⁴³

This division within the political left, to be sure, greatly helped aggravate the erosion of the Fourth Republic. However, the burden of responsibility must be shared with the party system itself. As Otto Kirchheimer reasoned, "the end of tripartism in 1947 need not have arrested the transformation of French parties into organizations able to integrate major social groups into the political system and able to work in coalition—collaboration or in alternative shifts." Instead of transforming themselves into "an effective transmission belt between population and government and a basis for policymaking," most Fourth Republic parties remained at "the stage of local-interest messengers and parliamentary clubs." Parties' failure was more often than not accompanied by their ideological approach to policy issues.⁴⁴

Press, 1966), pp. 177–200; and later by Adam Przeworski in his "Social Democracy as a Historical Phenomenon," *New Left Review*, no. 122, 1980, pp. 28–32.

⁴³ Ross, *Workers and Communists in France*, pp. 68–69; Larkin, *France since the Popular Front*, p. 159.

⁴⁴ Kirchheimer, "Transformation of the Western European Party Systems," pp. 179–80.

At the same time the Fourth Republic produced impressive achievements in economic growth. For the 1950s the annual growth rates averaged at 4.5 percent and it was higher than in the other three countries examined here. Rising productivity allowed the French economy to exceed the targeted 1929 level of domestic production by 1956. "Between 1950 and 1958, gross national product and national income grew by 41 per cent, the real value of the average hourly wage rose by 40 per cent, the volume of consumption increased by 47 per cent, exports grew by 44 per cent, and gross fixed capital formation was up by 57 per cent." These quantitative changes were accompanied by the qualitative development of French industry. The nation succeeded in catching up its European competitors by attaining a higher level of industrial efficiency. In narrowly economic terms, therefore, the Fourth Republic saw the beginning of the *trente glorieuses*.⁴⁵

The Fourth Republic governments were successful in placing economic (domestic and foreign alike) policymaking "above the interests and the parties." Particularly in the area of foreign economic policy, the governments did not consult the affected industry at the stage of policy formulation. When the Schuman Plan was devised in response to U.S. pressure to accept the increase of German steel output, the Quai d'Orsay shaped the debate sparked by the Plan in a way that contrasted "national (security) interest" with "special interests" of the steel industry. The ECSC bill passed with a stable majority excluding the Gaullists and Communists. The European Economic Community (EEC) was also pursued without any prior consultation with the industry. The Mollet government successfully mobilized French Germanophobia in order to mute the opposing

⁴⁵ Kuisel, *Capitalism and the State*, p. 264; Rioux, *Fourth Republic*, pp. 317–18.

voice from the CNPF. Another wave of Cold War symptoms like the Soviet repression of the Hungarian protesters added strength to the government's approach.⁴⁶

While these dramatic performances in foreign economic policies "owe[d] much to the Quai d'Orsay's postwar schemes," coincident achievements in domestic economic planning were in large part the "structural" outcome of conservative-dominated governments. As long as centrist parties could keep the two extremes, the Communists and Gaullists, out of government positions, the economic policy outcomes were not supposed to move too far in either leftward or rightward direction. Although issues of economic reforms were repeatedly subject to ideological arguments in parliament, the "centrist realists" of the Fourth Republic did not denounce the basic frameworks of the postwar settlement. By 1960 Wallace C. Peterson observed that "In France, no less than in Great Britain, the welfare state has been institutionalized, and what can be expected in the future is little more than "tinkering" in the hope of improving its functioning."⁴⁷

As a whole, Fourth Republic governments were committed to nothing particular on the economic policy agenda. Conservative politicians always maintained some distance from the details of economic policymaking and allowed the technocrats in the Ministry of Finance to fine-tune the economy. Political consensus of the Fourth Republic was narrow but substantial enough in its chosen policy range.

⁴⁶ Verdier, *Democracy and International Trade*, pp. 220–21.

⁴⁷ Ibid., p. 226; Peterson, *The Welfare State in France* (Lincoln: University of Nebraska Press, 1960), p. 103.

EMBEDDING STATE AUTONOMY OR LIBERAL CAPITALISM?

With the conclusion of World War II the French policymakers were given two options to choose from regarding their “hothouse” economy that had been restricted by cartels and protected by tariffs. The first option was to retain it until the pressure to liberalize passed from a newly emerging interdependent world economy became unbearable. Such a “to-the-last-minute” approach could not be taken just because France at the time of liberation badly needed massive amount of capital investment for reconstruction, and the United States would provide loans only in exchange for significant liberalization of the French economy. The second option was to open the “hothouse without destroying the plant, neither permitting it to wither from competition nor to be uprooted by political turmoil.”⁴⁸ Once French planners and politicians took that option, the question was how to implement the postwar schemes. Here again, two options were presented to the policymakers. One was to extract compromise at the societal level through the *reinstitutionalization* of tripartite consultative bodies. That was what may be called the “normal” path to embedded liberalism compromise, but unfeasible primarily because of social groups’ inability and/or unwillingness to organize themselves into representative, responsible peak associations. The alternative taken by Fourth Republic reformers was to refurbish the role of the state in a way that promoted its “social regulator” function.

The French case shows an exemplar of liberal participant that takes advantage of the hegemonic policies of the United States. “The French government has used domestic structures to bend the terms of international economic interdependence in France’s favor

⁴⁸ Zysman, “French State in the International Economy,” p. 845.

through state intervention and the manipulation of domestic and international markets.” Within the institutional orbit of the General Agreement on Tariffs and Trade (GATT) the French policymakers could use a wide variety of industrial policy tools such as subsidies and tax exemptions. But when they needed more than what the GATT regime guaranteed, the French planners and politicians did not resort to the alleged pressure from domestic producer groups. Their bargaining chips were more diplomatic and security-related. The threat of Soviet expansionism and the German problem were the best means to make the United States pay attention to the French approach to European integration.⁴⁹

Although discussion in this chapter, especially on labor, may suggest that France was an outlier in the evolution of embedded liberalism, we should not assume that French workers were spineless beneficiaries of the welfare state. They were politically resourceful enough to exploit the vulnerability of parties to the largest occupation group and to engage in collective action against the state. Despite their verbal militancy, French labor never drove its economic struggle to the point of attacking the growth coalition. During the 1950s the lost workdays were shorter in France than they were in the United States where labor-management relations were much more amicable, and organized labor rarely protested against the federal government. As David Thomson remarked, “The social restiveness and political unsteadiness of the Fourth Republic concealed remarkably solid improvements in health, wealth, and productivity.” During the period of 1949 to 1959, France’s gross domestic product increased at an average rate of 4.5 percent. Particularly the growth of industrial production was unprecedented. Between 1952 and

⁴⁹ Robert A. Issak, *European Politics: Political Economy and Policy Making in Western Democracies* (New York: St. Martin’s Press, 1980), p. 87; Verdier, *Democracy and International Trade*, pp. 217, 221.

1959, “industrial output grew by more than 50 per cent.” Unemployment was low throughout the decade, with its highest figure being 1.6 percent in 1953–1954. “[T]he prevailing trend was clearly to full employment.”⁵⁰

Regarding the comparatively strong role of the state in France, Jytte Klausen has raised a stimulating question: “do we need to reach back to 1789 to explain the relative insularity of the state elite against the pressures of interest group and electoral democracy?” It has been an intellectual fad within the subfield of comparative political economy to group together France, Japan, and Italy into the category of the “entrepreneurial state.” State-led economic growth over a sustained period in those countries, state autonomy theorists liked to hypothesize, reflects the asymmetrical relationship between the state and society. For the French case it is tempting to account for the success of *dirigiste* industrial policy by drawing upon the tradition of *volonté général*.⁵¹

But such an explanation is basically exceptionalist and tends to ignore more “recent” developments in the state-society relations that took place during the late 1940s and 1950s. Despite a wide range of cross-national variations in practicing heterodoxy, the Depression and the war allowed the state to act as a “manager of economic prosperity” and as a “guarantor of social protection.” The French planners of the 1940s and economic policymakers of the 1950s followed the transatlantic trend of the “mixed economy” with the institutional resources available to them. As John Zysman has argued:

⁵⁰ Thomson, *Democracy in France: The Third and Fourth Republics*, 3rd ed. (London: Oxford University Press, 1958), p. 249; Hitchcock, *France Restored*, p. 205; Rioux, *Fourth Republic*, pp. 321, 331.

⁵¹ Klausen, *War and Welfare*, p. 257.

The interventionist state was not the product of some ingrained national character, of an ideology of etatism, or of a historical tradition of close involvement in the economy. Nor did the reorientation occur, as some suggest, simply because new men gave fresh purpose to the French economy in the late 1940s. Instead, the shift occurred because new purposes were embedded in old institutions and the relations between state institutions and those of the economy were altered. ... This institutional reorientation was not simply an administrative reform; rather, it represented an explicit political victory that shifted the relative positions of business leadership and state bureaucrats.⁵²

The new purposes were ranked according to policy priority; and industrial expansion was on top. Minimizing the costs of expansion imposed upon the traditional sectors came next on the list. Given the size and political weight of the traditional sector in France, the governments' efforts in the second-order policy area should not be dismissed as temporary acts of artificial resuscitation or practices of euthanasia that let the dying patient go as painlessly as possible. Instead, "the willingness of the political elites and of the powerful groups in the modern sector of the economy to pay high costs for protecting the traditional remnants" should be seen "as parts of a larger pattern,"⁵³ that is, the French variant of embedded liberalism compromise.

From the perspective of this study, the Fourth Republic's one structural defect was its inability and unwillingness to institutionalize the state's relations to labor, organized and unorganized alike. Parties in government would not intervene in the affairs of industrial relations as far as labor-management conflict did not spill over into the political system itself. Even when labor discontents developed into nation-wide strikes, the government avoided overhauling the labor-regulation regime; instead it adjusted its social policy on a case-by-case basis. The French state acted as *the* judge as well as the defendant in its dealing with labor. Admitting the imperative of balancing international liberalization with

⁵² Zysman, *Governments, Markets, and Growth*, pp. 104–5.

domestic stability, Fourth Republic technocrats and politicians embedded state autonomy rather than liberal capitalism in the new social purpose. As a result, the French state became more responsive to the demands from the larger society, not just industry, and directed the process of mixing liberal and illiberal elements of the economy.

⁵³ Berger, "Traditional Sector in France and Italy," pp. 88–89.

CHAPTER FIVE

Adjusting Liberal Capitalism to a Collectivist Society Corporatism and Consensus in West Germany

FASCIST CHALLENGER TRANSFORMED INTO LIBERAL SUPPORTER

WEST GERMANY'S PARTICIPATION in the new liberal subsystem marked a turning point in the historical evolution of the German political economy since the Wilhelmine period. Peter Gourevitch pointed to the fact that "The two periods 1929–39 and 1945–49 are generally treated separately, with World War II as the great divide. In terms of economic policy, however, they can be seen as parts of a single historical development that culminated in the construction of a mixed economy located in a constitutionalist political framework."¹ Although I agree with this observation (particularly its methodological point), distinction should be made between the cases of democratic survival and breakdown that parted at a crossroads of the 1930s.²

Two of the four countries considered in this study, the United States and Britain, retained the basic frameworks of liberal political economy, while adding to them far-

¹ *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca: Cornell University Press, 1986), p. 125. The need to study the two postwar years in a single historical perspective was also recognized by Charles S. Maier in "The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Western Europe," *American Historical Review* 86 (1981): 327–52.

² Different paths to political development during the interwar period have been examined in a full-scale, comparative study by Gregory Luebbert, *Liberalism, Fascism, or Social Democracy: Social Classes and the Political Origins of Regimes in Interwar Europe* (New York: Oxford University Press, 1991); and in a recent, narrower study by Sheri Berman, *The Social Democratic Moment: Ideas and Politics in the Making of Interwar Europe* (Cambridge: Harvard University Press, 1998). Both works, however, do not address the connection between international economic order and domestic regime changes. While the works of Gourevitch, Peter Katzenstein, and Ronald Rogowski dealt with the international connection of domestic choices, their analyses focus on how domestic actors *reacted* to the liberal world economy. I stress that the German problem is as much a problem of revision as of reaction.

reaching institutional renovation for organized capitalism. France was an ambiguous case in terms of the liberal management of domestic economy, although externally it stuck to the rules of the gold standard to the last minute. Moreover, French experimentation with heterodoxy was discontinued by the German occupation during World War II. France lost its own chance to create a wartime corporatist machinery of the kind that laid foundation for the postwar settlement in the United States and Britain. As a corollary of the German occupation, France's constitutional order disintegrated. The Libération allowed French policymakers to join the liberal community that was heading for a mixed economy governed through democratic institutions. The wartime caesura had to be compensated through a revamped use of interventionist policy tools. In West Germany, the opposite sequence can be observed. The interwar and Nazi period saw an array of full-blown heterodox economic policies. Hitler's wartime mobilization and excessive controls were pursued according to the principle of "primacy of politics" at the expense of market mechanisms.³ The postwar backlash against the excess of heterodoxy led to the ascendance of neoliberalism in economic policy formulation. However, the two neighbor countries shared one important characteristic of policy process: *economic policymaking relatively independent of partisan politics*. The newly inaugurated Bonn Republic committed itself to the new principle of, "Wirtschaft über alles," while Fourth Republic politicians left the details of planning to technocrats of the finance ministry. In short, I propose to treat the cases of democratic breakdown "differently, but not separately."

This kind of argument has been also presented by Jytte Klausen when she included the

³ Tim Mason, "The Primacy of Politics: Politics and Economics in National Socialist Germany," in idem, *Nazism, Fascism and the Working Class*, ed. Jane Caplan (Cambridge: Cambridge University Press, 1995), pp. 53–76.

West German case to give her book a more comparative edge.

The German case poses some distinct challenges to the theory [of warfare-welfare state nexus]. The thesis that the warfare state shaped the postwar welfare state seems implausible in the face of state collapse. The Nazi state relied on corporatist war controls, centralized planning, price controls, cartelization, and military and industrial conscription, much as liberal democracies did, *but with a difference*: The fascist state abandoned public-private distinctions. In this case, the war effort, military defeat, death, and subsequently occupation and national partition combined to cause the collapse not only of the state but also of German society.⁴

In the aftermath of so destructive a war Germans were confronted with qualitatively different tasks than those facing three other countries examined here. How can Germany reconstruct its political democracy and economic production in accordance with the terms and conditions imposed by the newly emerging liberal subsystem? As of 1945, the logic of liberal world order was recognized on the minds of German people as foreign governments' encroachment upon their customs and practices in political and economic life. It meant more regulations and controls rather than a fair and free play of market forces as the Americans understood.

Not unlike the Soviet Union, although there was a clear lag behind the Soviet moves toward the socialization of Eastern Europe, the United States sought to rebuild the western part of war-torn Germany after its own image; a liberal democracy based on the market economy. As shall be argued below, Americans were operating as the "stabilizer of a new, bourgeois Europe." Britain as another occupation power competed with the new hegemon over the course of the West German political economy. The British, now under the Labour government, pushed for socialization of basic industries, while the Americans did not want to carry the process of industrial reorganization beyond decartelization. The

American scheme won the competition; and there was the factor of the Cold War behind it. In this regard, “[t]he Federal Republic was an offspring of bipolarity, conceived and nurtured by the strategic imperatives of the West.”⁵ The United States played a crucial role in restoring the market mechanism, but not without any restrictions inherited from the past. The Cartel Law, for example, that was finally adopted in 1957 presaged an exceptionally deep and rapid Americanization of its national economy. But at the same time it reflected a compromise between “concentrated and decentralized industrial orders,” which was part of the legacy from early phases of capitalist development in Germany.⁶

This reestablishment of domestic institutional arrangements for a new German capitalism was closely connected with the reemergence of the nation as a powerful trading state. Germany failed at two earlier attempts to establish a *formal* empire through the wild use of brutal force in the first half of the twentieth century, although those attempts showed that “conquest still pays” especially when the Germans found in the conquered territories collaborators who were favorable to fascist social purpose. However, the partition of the country made almost impossible another future bid for world power in the traditional sense of the term. Accepting and swiftly adjusting to this

⁴ *War and Welfare: Europe and the United States, 1945 to the Present* (New York: St. Martin's Press, 1998), p. 167. Emphasis added.

⁵ Volker R. Berghahn, *The Americanization of West German Industry, 1945–1973* (Cambridge: Cambridge University Press, 1986), p. 84; Josef Joffe, “The Foreign Policy of the German Federal Republic,” in *Foreign Policy in World Politics*, ed. Roy C. Macridis, 5th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1976), p. 121 as cited in Michael Kreile, “West Germany: The Dynamics of Expansion,” *International Organization* 31 (1977): 779; also see p. 780.

⁶ Gary Herrigel, *Industrial Constructions: The Sources of German Industrial Power* (New York: Cambridge University Press, 1996). Herrigel describes the concentrated sectors as *autarkic* industrial order, but his usage is not supposed to mean any ingrained protectionist leanings of the sectors. He seems to stress the economy of scope realized in the sectors.

geopolitical reality, political and business elites of West Germany began to turn to a strategy German liberal thinkers had long dreamt of: constructing an *informal* empire through trade expansion. Cordell Hull as an enthusiastic free-trader once said, "If goods can't cross borders, soldiers will."⁷ For the Germans who witnessed what happened to their troops and society during and after the war, the opposite was *the* option: "If soldiers can't cross borders, goods will." And they did.

Germany's traditionally strong export sectors helped make the country claim a much larger share of world trade in the multilateral trading system created by the United States and other club members. Particularly the iron and steel industries became the motive force behind the export-oriented growth with the outbreak of the Korean War that sharply increased the market demand for capital goods. As a result, "[b]etween 1950 and 1955 West German exports more than trebled," and "[t]he ratio of exports to GNP rose from 8.5 percent in 1950 to 15.9 percent in 1960." In the aftermath of the unprecedentedly destructive war, a broad consensus existed among the Germans over the primacy of restoring the nation's productive capacity to the prewar level by taking advantage of international conditions—the Bretton Woods system and the Cold War. An "export mystique" combined with the "politics of productivity" to generate a political economy most akin to democratic corporatism in small European countries. Domestically, export-oriented growth provided a solid material base of "popular support for the market

⁷ Peter Liberman, *Does Conquest Pay? The Exploitation of Occupied Industrial Societies* (Princeton: Princeton University Press, 1996); Volker R. Berghahn, "German Big Business and the Quest for a European Economic Empire in the Twentieth Century," in *Quest for Economic Europe: European Strategies of German Big Business in the Twentieth Century*, ed. idem (Providence, R.I.: Berghahn Books, 1996); Joanne Gowa, "Bipolarity and the Postwar International Economic Order," in *Industry and Politics in West Germany: Toward the Third Republic*, ed. Peter J. Katzenstein (Ithaca: Cornell University Press, 1989), p. 42.

economy and the system of democratic institutions” by ensuring a high level of employment and social protection under the sponsorship of the federal government. The center-right coalition governments led by the Christian Democrats (CDU) legislated generous social welfare programs such as inflation-indexed pensions, which was the first of its kind within the liberal community.⁸

Export-oriented economic growth was directly connected to the ideological hegemony of supply-side economics within the policymaking circle. Disenchanted with the “irresponsible” proto-Keynesian experimentations of the interwar years and with the interventionist controls imposed during the Nazi regime and the Allied occupation, the postwar architects of the West German economy did not take Keynesianism into account as an option. Economic growth was to be achieved through investment rather than consumption. Deeply ingrained “inflation consciousness” dominated the economic mind of the Germans and was institutionalized into a central bank with an extraordinary degree of independence from political pressures. The Deutsche Bundesbank, established in 1957 based on Article 88 of the Basic Law, was committed to a defense of stable currency and rendered other policymaking centers “policy-takers” by “often oppos[ing] ... economic and financial policies of the federal government.” More interesting was the attitude of the Social Democrats (SPD) and trade unions toward Keynesianism. They were more interested in such issues as nationalization, planning, and worker participation than in

⁸ Reinhard Neebe, “German Big Business and the Return to the World Market after World War II,” in *Quest for Economic Europe*, ed. Berghahn, pp. 114, 120; Kreile, “West Germany: The Dynamics of Expansion,” pp. 776, 777; Richard Hiscocks, *Democracy in Western Germany* (London: Oxford University Press, 1957), p. 1; Peter J. Katzenstein, “Industry in a Changing West Germany,” in *Industry and Politics in West Germany*, ed. idem, p. 7.

acquiring mass purchasing power through Keynesian deficit financing.⁹ As a result, full employment did not enjoy a top priority status on the economic policy agenda, which generates a contrast with other industrial nations.

Such a strong emphasis on fiscal soundness, however, coexisted with an equally strong one on the renewed role, political and military as well as economic, of West Germany in an emerging United States of Europe. Although the two leading figures of the CDU government, Konrad Adenauer and Ludwig Erhard, divided over the issue of European integration, the former was politically shrewd enough to reconcile Germany's economic policy priorities with the geostrategic need to slake the Germanophobia among the neighboring countries.

One of the most intriguing questions about the West German political economy would be: how a nation of authoritarian organized capitalism and expansionist foreign policy came to terms with a new international order of liberal corporate capitalism and multilateral cooperation. For example, although the Basic Law (Grundgesetz) prohibited compulsory memberships in any associations, a practice widespread in the country,¹⁰ West Germany was and is one of the most densely organized societies among Western industrial democracies. How can we explain this German *Sonderweg* without resorting to exceptionalist approaches that focus on authoritarian political culture and collectivist

⁹ Harold James, "What Is Keynesian About Deficit Financing? The Case of Interwar Germany," in *The Political Power of Economic Ideas: Keynesianism across Nations*, ed. Peter A. Hall (Princeton: Princeton University Press, 1989), pp. 231–62; Jelle Visser and Joris Van Ruysseveldt, "Robust Corporatism, Still? Industrial Relations in Germany," in *Industrial Relations in Europe: Traditions and Transitions*, ed. Van Ruysseveldt and Visser (London: Sage, 1996), p. 131; Christopher S. Allen, "The Underdevelopment of Keynesianism in the Federal Republic of Germany," in *Political Power of Economic Ideas*, ed. Hall, pp. 263–89; Geoffrey K. Roberts, *German Politics Today* (Manchester: Manchester University Press, 2000), p. 43.

¹⁰ Klausen, *War and Welfare*, p. 167.

mentality widespread not only among the elites but also masses? As in the previous chapters I look into labor market and political institutions where politicians, business leaders, and trade union officials made their decisions in response to structural continuities and external challenges to them; and often effected significant changes. Before doing that it is necessary to understand how the immediate postwar settlement was made through the interaction between Germans and the occupying powers, especially the Americans.

SELECTING PLAYERS AND LIMITING POLICY AGENDA:
WEST GERMANS AND THE AMERICANS IN THE OCCUPATION PERIOD

The rest of the 1940s after the conclusion of war in West Germany saw a change of magnitude greater than any other country in the political regime and economic structure alike. In retrospect, considerable continuity can be detected, but “no other country in Europe had such a unique chance to create new political and economic institutions.” It was largely because Germans lacked their own alternatives, political and economic alike, acceptable to the victor nations. The Weimar Republic had been known for its political instability and, above all, had no effective protections against the encroachment of antisystem parties such as the Nationalsozialistische Deutsche Arbeiterpartei (NSDAP). As Gourevitch discerned, Nazi Germany was riding on the same track of “breaking with orthodoxy” as were New Deal America and social democratic Sweden. Yet at the same time, as Gregory Luebbert tellingly argued, the National Socialist solution for depression was a mixture of illiberal economics and, unlike the Swedish solution, antilabor politics.

“Fascism repudiated both the politics and the economics of liberalism.”¹¹

Thus a new democratic capitalist Germany had to be created without any recognizable links with the past. As to the political system, the Western Allies were in complete accord that democratization of the German territory must start from denazification. The War Department under the supervision of John J. McCloy, the later Military Governor, conducted an extensive denazification program through which the Americans examined 13.4 million Germans and named about 3.7 million pro-Nazi offenders. The number of the politically disenfranchised added up to 147,000. The program ransacked the whole German society: “universities and schools, local and regional public-service bureaucracies, the police and the judiciary.” But behind the stage of retribution did the Americans and other Allies condone the wartime acts of Germans whose military, intelligence, and technology expertise were considered useful.¹² Such a pragmatic approach to denazification, however, could not be taken in re-creating the German political class that would govern a new Republic. U.S. policymakers needed to make sure that a new democratic Germany would never again elect a *Führer*.

It was not an easy job for the Americans to find future democratic leaders with no fascist record in a country that had been under the totalitarian rule for an extended period. Most of conservative politicians and high-level civil servants were involved in one way or another with the fallen regime, although they all were not what Daniel Goldhagen called “Hitler’s willing executioners.” Kurt Schumacher, who spent ten years at Nazi

¹¹ Visser and Van Ruysseveldt, “Robust Corporatism, Still?” p. 129; Gourevtich, *Politics in Hard Times*, pp. 146–47; Luebbert, *Liberalism, Fascism or Social Democracy*, pp. 2–3.

¹² Thomas Alan Schwartz, *America’s Germany: John J. McCloy and the Federal Republic of Germany* (Cambridge: Harvard University Press, 1991), pp. 46–47; Roberts, *German Politics Today*, p. 11.

concentration camps, was among the few qualified to lead the immediate postwar German political scene. But his unchanged ideological conviction that the Social Democrats should and could pursue its socialist goals in a more favorable environment—another “red two years” of 1945–1947—by remaining loyal to its core constituency brought the party down to a political ghetto. At the same time the SPD under the leadership of Schumacher contributed to the delegitimation of the Communists (KPD) by ignoring their offer of a united front. Calling the KPD “red-painted Nazis” and “servants of a foreign power,” Schumacher left no possibilities of a united left except in the form of the “social democratization” of the KPD. Having almost fully restored its pre-1933 organizational networks, the Social Democrats appeared not in need of strategic alliance with their Communist brethren.¹³ Ironically, the SPD’s misguided strategy helped the Americans achieve what they wanted most in the political realm: a party system dominated by reformist, anti-communist right-wing parties.

In the economic realm, the United States intervened in the policy process not just as an occupation power, more importantly as the hegemon of a new liberal subsystem. U.S. policymakers approached the German problem with a view to remolding the defeated nation’s political economy as far in the liberal direction as possible. But in doing so the U.S. authorities faced a strong presence of German interests including different sectors within industry and their political representatives. It was very natural for the Germans to be resistant to the American scheme of implanting their own system onto a greatly

¹³ Lewis J. Edinger, *Kurt Schumacher: A Study in Personality and Political Behavior* (Stanford: Stanford University Press, 1965), p. 1; William Carr, “German Social Democracy since 1945,” in *Bernstein to Brandt: A Short History of German Social Democracy*, ed. Roger Fletcher (London: Edward Arnold, 1987), pp. 194–95; Gerhard Loewenberg, “The Remaking of the German Party System: Political and Socio-

different soil. Although the German survivors of the Nazi regime did not want to stick to Hitler's formula, nor did they welcome with a blind faith an alien system envisaged by the Americans. They wanted to refurbish the national economy in accordance with the German tradition, which in no way saw cartels and other forms of market agreements as inimical to the health of liberal capitalism.

Well before the end of the war the Allies were agreed that concentration of economic power should be drastically reduced not only in agriculture but also in all other sectors of the German economy. The Potsdam Agreement stated: "At the earliest practicable date, the German economy shall be decentralized for the purpose of eliminating the present excessive concentration of economic power as exemplified in particular by cartels, syndicates, trusts and other monopolistic arrangements."¹⁴ The four occupying powers, of course, supported the clause for different reasons. For the Americans and the British, German industry was the economic base of Hitler's dictatorial regime at home and expansionary foreign policy. What drove the French to follow the Anglo-American policy line was a nationalistic feeling of self-defense against too industrially strong a neighbor. To the Russians, decentralization of economic power would seem so natural and imperative given their socialistic goals. In the Russian zone, however, decentralization did not take place because entire industries and fields of trade had to be "recentralized" by state action in the name of socialization.¹⁵

Economic Factors," *Polity* 1 (1968): 107; Patrick Major, *The Death of the KPD: Communism and Anti-Communism in West Germany, 1945–1956* (Oxford: Clarendon Press, 1997), p. 43.

¹⁴ Hans-Joachim Braun, *The German Economy in the Twentieth Century* (London: Routledge, 1990), p. 151.

¹⁵ Gustav Stolper, *The German Economy, 1870 to the Present*, trans. Toni Stolper (New York: Harcourt, Brace & World, Inc., 1967), p. 194.

U.S. policymakers understood that cartels had worked as a crucial bridge between German society and its political regime. The Nazi regime arose in part with the broad support of middle class (Mittelständler) voters whose socioeconomic conditions were threatened or felt threatened by both the overflow of working-class demands and the increasing aggrandizement of large industries at the expense of small- and medium-sized ones. Cartels were perceived, under that kind of circumstances, as a protective shield for middle-class interests, and for this reason could be exploited by the Nazi regime as an efficient tool for translating Germany's illiberal capitalism into a foothold for its expansionist foreign policy. This kind of argument gained strength within the U.S. academics and policymaking circles alike throughout the 1940s. Its overall impression of the German system was clearly negative. Yet at the same time the American scheme of decartelization had a positive orientation because its stated objective was "an expanding German economy with a progressive improvement of the living standard as the basis of a viable political democracy."¹⁶ This reflected the American notion of economic prosperity as a foundation for stable democracy, which in turn might prove to be a strong bulwark against the threat of Soviet power.

The United States, where antitrust movement had been an old and robust tradition, showed a missionary zeal in reforming the defeated enemy into an American combination of free market economy and liberal democracy. On the theoretical mind of the Americans in Washington, national political regime, the economy, and foreign policy were to be altogether shaped along the demarcation line between liberalism and illiberalism. When a

¹⁶ H. K. Bock and H. Korsch with Sidney H. Willner, "Allied Decartelization and Deconcentration in the West German Economy since 1945," in *Anti-Trust Laws: A Comparative Symposium*, ed. W. Friedmann (Toronto: The Carswell Company, 1956), pp. 176–77.

nation's economy was dominated by cartels and cartel-like institutions and thereby depressing competition, its polity was expected to be nondemocratic in contestation and decisionmaking, and finally its foreign policy tends to resort to the use of military force in attaining its goals. Germany under the Nazis seemed the best example of this combination, to the Americans, and the country should be reformed in the direction of a liberal democracy that pursues foreign policy in accordance with the norms and principles of the liberal international economy.

There existed a consensus among the top Washington policymakers and the East Coast business establishment that fascist Europe, unless radically transformed, would remain a fundamental threat to a new world economic order to be led by the United States and that the German cartels were to be abolished in the first place for that purpose. But they greatly differed over the specifics of the postwar reshaping of Germany. Henry Morgenthau, Treasury Secretary, proposed to reduce Germany's industrial strength by introducing a ban on cartels of all kinds. The position taken by industrialists and bankers was more conservative than that of the left New Dealers. They wanted German big business and its status within international cartels to remain intact while not opposing the reform of the German market organizations, i.e., cartels in the narrow sense of the term.¹⁷

After the Morgenthau Plan of 1944 had been shelved, the Washington-East Coast consensus was left with nothing but a vague idea of deconcentration and too broad a notion of decartelization. The Joint Chiefs of Staff (JCS) directive 1067 of May 1945 ordered the U.S. High Commission in Germany "to prohibit all cartels and other private business arrangements and cartel-like organizations" and "to effect a dispersion of the

¹⁷ Berghahn, *Americanization of West German Industry*, pp. 84, 86.

ownership and control of German industry.” It included two different goals to be achieved as if the two are one and the same thing. Among the policymakers developed a dissensus over the specific nature of the deconcentration program, whereas decartelization was considered agreed upon. Those in the “trust buster” tradition of the 1930s held that all the large-scale enterprises were to be broken up into small ones. In contrast, advocates of the internationalized sector within the U.S. business community saw German big business as a functional equivalent of American-style oligopolistic enterprises in providing mass produced goods to a swiftly expanding market.¹⁸

The U.S. occupation authorities were well aware that disagreement over deconcentration would cause a serious problem with the cartel policy. Who would gain and who would lose from decartelization unaccompanied by a corresponding degree of deconcentration was too clear. To minimize the resistance from those put at a disadvantage by their decartelization programs, the Americans delayed taking over the cartel policy process to the Germans themselves. A new republic of the Germans was assumed to be fragile to cope with such a thorny issue. Instead, they enforced the bans on cartels in a rather domineering way.¹⁹

But in the long run, for the American scheme of industrial reorganization to be put into practice, while keeping resistance from nationalists and traditional sectors to a minimum, a substantial degree of Germanization of the policy process was essential. Through the remaking of the party system four parties emerged as meaningful political contestants, but the CDU was considered capable of taking over the job of liberalizing the economy in an

¹⁸ Ibid., pp. 89–90.

¹⁹ Ibid., p. 155.

effective and orderly manner. Within the CDU, however, Adenauer had difficulty finding a right person who would be managing the West German economy, while fending off the challenges from the Christian Socialist wing of his party and the SPD. Since the 1947 Ahlen program was adopted, the party had been rapidly leaning toward the notion of *Gemeinwirtschaft*, a German equivalent of mixed economy formulae. Adenauer, a conservative politician, needed a balance within his party. Erhard, the then economics director of the Bizone, was recruited by Adenauer mainly because the economist was making his reputation as an uncompromising champion of the free market. Although Adenauer never identified himself with neoliberals, he saw a political advantage that endorsing Erhardian market ideology would bring to his scheme to ostracize the SPD out of the future federal government.²⁰

Erhard's participation in the CDU was also expected to bring more electoral fortune to the party because his call for return to the market was appealing to the German voters who were agonized by the Allied economic controls. At least until July 1947 when a more "soft" German policy was adopted by the Truman administration concerned with the Soviet expansionism, U.S. occupation policy epitomized in the JCS directive 1067 was so punitive. Even Deputy Military Governor, General Lucius D. Clay, complained that the directive did not take into account the economic and social conditions of Germany: acute shortage of materials, massive population inflows from the Eastern zone, demobilized soldiers coming home, widespread black markets. Many experts in foreign affairs and internationalist policy advisors such as Lewis Douglas warned that such an

²⁰ A. J. Nicholls, *Freedom with Responsibility: The Social Market Economy in Germany, 1918–1963* (Oxford: Clarendon Press, 1994), pp. 234–35; Arnold J. Heidenheimer, *Adenauer and the CDU: The Rise of the Leader and the Integration of the Party* (The Hague: Martinus Nijhoff, 1960), p. 126.

occupation policy in combination with the ongoing reparations removal by the French would lead to another Versailles. The heated debate over the “soft versus hard peace” within the United States lessened only “after the Moscow Council of Foreign Ministers meeting to achieve effective four-power German settlements.” Meanwhile, rigid economic controls imposed by the Allies made most Germans blame their everyday hardships on the occupation authorities, not the fallen regime. Even the “prospect of some revival of Nazism—or of a turn to communism as a remedy” seemed plausible. Under the circumstance, Erhard’s market solution appeared the same thing as decontrol badly needed by the Germans.²¹

The CDU’s turn to the social market economy, of course, could work in no small measure due to the timely arrival of the “Marshall Hilfe.” The European Recovery Program (ERP), above all, provided West Germany with a valuable chance to join the club of liberal capitalist nations through the membership of the Organization for European Economic Cooperation (OEEC). Although it is hard to find a precise correlation between the Marshall Plan aid that amounted to “approximately \$3 billion from 1948 to 1951” and economic performance during the period, “the anticipation of the first ... deliveries may have helped ... mitigate the price inflation which developed ... during the first months after the liberal reforms of June 1948.” And the aid contributed to the improvement of the balance of payments situation.²²

²¹ John Gimbel, *The American Occupation of Germany: Politics and the Military, 1945–1949* (Stanford: Stanford University Press, 1968), pp. 1–5; Roberts, *German Politics Today*, p. 11.

²² Herbert Giersch, Karl-Heinz Paqué, and Holger Schmieding, *The Fading Miracle: Four Decades of Market Economy in Germany* (Cambridge: Cambridge University Press, 1992), pp. 96–97, 99; Charles S. Maier, “Introduction: ‘Issue Then Is Germany and With It Future of Europe,’” in *The Marshall Plan and Germany: West German Development within the Framework of the European Recovery Program*, ed. idem (New York: Berg, 1991), p. 4.

BETWEEN LIBERALISM AND COLLECTIVISM:
ORGANIZED LABOR AS RATIONAL COLLABORATOR

Scholars of the West German political economy have with ease agreed that the country's highly efficient macroeconomic performance—which was often phrased as “growth without inflation”—can be attributed largely to the presence of well-organized but self-restraining labor. And the collaborative working class has been often understood as emerging from such “Germanic” characteristics as “punctuality, discipline, a near blind faith in authority, and a certain sense of frugality.” Instead of such a political-culture account, of course, there are better, non-exceptionalist explanations we can count on. Andrei Markovits, for example, argued that the German labor movement came to look to the state as a solution for class conflict in its complex interaction with the Bismarckian *Obrigkeitsstaat*. Although the Anti-Socialist Law (1878–1890) harshly suppressed the mobilization activities of the SPD such as press, unionization, and public meetings, it did not prevent the party's electoral activities. As Karl de Schweinitz pointed out, “[a]t the height of the socialist repression, ... the only refuge for the movement was in the Reichstag, whose members were unwilling to limit their own freedom in order to excise the party from their midst.” Furthermore, the Kaiserreich placated workers by making legislations for the Sozialstaat. These state actions led trade unions to internalize the value of “juridification” (*Verrechtlichung*), and the SPD to engage in reformist strategies despite its Marxist doctrines.²³ The upshot was what many historians of modern Germany

²³ Andrei S. Markovits, “The Legacy of Liberalism and Collectivism in the Labor Movement: A Tense but Fruitful Compromise for Model Germany,” in *The Political Economy of West Germany: Modell Deutschland*, ed. idem (New York: Praeger, 1982), pp. 141, 145; Luebbert, *Liberalism, Fascism or Social Democracy*, p. 118; Schweinitz, *Industrialization and Democracy: Economic Necessities and Political Possibilities* (Glencoe: The Free Press, 1964), p. 165.

called the structure of “negative integration,” which involved a seemingly incompatible couplet: the nourishment of socialist “subculture” and the preoccupation with state power.²⁴

The “stick-and-carrots” strategy from above was repeated during the Third Reich in more violent and destructive ways. National Socialism came to power by exploiting the middle-class antipathy to socialism and laissez-faire capitalism; and indeed contributed to “[a] clear reduction of traditional elite positions” and “to increased social equality and mobility.” It was “Hitler’s social revolution,” but at the same time had the effect of distancing the German workers further away from the theory and praxis of Marxian socialism. From the ashes of the Nazi regime did German labor emerge “much more docile,” while the rest of Europe was experiencing the resurgence of the militant working class. Unlike in France and Italy where reinvigorated labor power was countervailed by an internecine strife between labor confederations that was mostly ideological, German labor as a whole was more strongly tied to the “values of gradualism and reformism.” And unlike in Britain where trade union organizations were decentralized along the craft lines, German workers demonstrated again their proclivity to intraclass unity “regardless of specific skills and particular occupations.”²⁵ No distinctions were made between skilled and unskilled, white-collar and blue-collar workers. Finally, unlike in the United

²⁴ Guenther Roth, *The Social Democrats in Imperial Germany: A Study in Working-Class Isolation and National Integration* (Totowa, N.J.: The Bedminster Press, 1963), pp. 212–48; David Blackbourn and Geoff Eley, *The Peculiarities of German History: Bourgeois Society and Politics in Nineteenth-Century Germany* (Oxford: Oxford University Press, 1984), p. 142; Massimo Salvadori, *Karl Kautsky and the Socialist Revolution, 1880–1938*, trans. Jon Rothschild (London: New Left Books, 1979).

²⁵ Christian Deubner, “Change and Internationalization in Industry: Toward a Sectoral Interpretation of West German Politics,” *International Organization* 38 (1984): 504; David Schoenbaum, *Hitler’s Social Revolution: Class and Status in Nazi Germany, 1933–1939* (Garden City, N.Y.: Doubleday & Co., 1966), chaps. 3 and 8.

States where organized labor was concentrated in capital-intensive, mass production industries, labor market segmentation (that was considerable) was rarely translated into any degree of stratification within organized labor in Germany.

The Deutscher Gewerkschaftsbund (DGB) was formed in 1949 as an umbrella organization under which sixteen industrial unions belonged. Its members counted over 5 million amounting to about 85 percent of the organized. The federation reflected the amalgamation of two guiding principles: one all-encompassing organization (Eihheitsgewerkschaft) along the industry lines (Industriegewerkschaft). The top priority of representing all German workers, not just the organized third, required labor leaders to denounce any direct ties with political parties, although many of them were Social Democrats by conviction. But this alleged non-affiliation did not mean depoliticization of the labor movement in a way that the American Federation of Labor (AFL) responded to antilabor court rulings in the late nineteenth century. As the DGB slogan, "We are politically independent but not neutral," suggested, West German organized labor took a pragmatic approach to politics. The federation enjoyed full autonomy in the areas of finance and collective bargaining, but at the same time relinquished the right to participate in the state machinery as a corpus. Instead, West German labor revived its liberal reformist tradition by collaborating with the Americans and their Christian Democratic partners in a common effort to denazify the Bonn regime. "[B]eing a Nazi or neo-Nazi was incompatible with being a unionist." And this "clause of incompatibility" was extended to the Communist and other radical left elements within the labor movement as the Cold War intensified. "[B]y the early to mid-1950s communists became

personae non gratae among some German unions,” and all the Communist-dominated locals were abolished. The DGB also followed suit soon after its American and British counterparts (the AFL, CIO, and TUC) departed from the World Federation of Trade Unions (WFTU) that was deemed Communist-dominated and founded the International Confederation of Free Trade Unions (ICFTU).²⁶

This reformist, gradualist, and unionist tendency of West German organized labor developed through the leadership of Hans Böckler who was among the most wanted on the Gestapo list due to his assassination conspiracy and later became the first president of the DGB. He had a firm belief that German labor must “learn from the mistakes of the past,” which in his view could be epitomized as “state idolatry” that had seen the central state machinery as the best medium of socialist transformation. Böckler understood that such a politically oriented strategy had led the SPD and trade unions to concentrate their efforts on winning elections (although never obtained a stable majority) and participating in the cabinet during the Weimar period at the expense of cross-class alliance against the rise of National Socialism. Electoral competition was not confined to one with other parties, but extended to the internal politics of organized labor. Divided into socialists, Catholicists, and liberals, trade unions fought each other over the share of party candidates. The most regrettable thing the left had allowed to happen, from the

²⁶ Markovits, “Legacy of Liberalism and Collectivism,” pp. 152–54; Visser and Van Ruysseveldt, “Robust Corporatism, Still?” p. 139; Deubner, “Sectoral Interpretation of West German Politics,” pp. 504–5; Edwin Hartrich, *The Fourth and Richest Reich* (New York: Macmillan, 1980), p. 177; Andrei S. Markovits and Christopher S. Allen, “Trade Unions and the Economic Crisis: The West German Case,” in Peter Gourevitch et al., *Unions and Economic Crisis: Britain, West Germany and Sweden* (London: George Allen & Unwin, 1984), pp. 95, 100; Roy J. Adams, *Industrial Relations under Liberal Democracy: North America in Comparative Perspective* (Columbia: University of South Carolina Press, 1995), pp. 29–30, 184, n. 7; Major, *Death of the KPD*, p. 184.

perspective of Böckler, was the hyperinflation of 1922–1923 that “had wiped out the savings and property of the working classes.”²⁷

With these interwar failures in mind, Böckler charted the direction of a postwar labor movement in three ways: extenuation of ties with the SPD, creation of a single trade union representing all the workers, and replacement of nationalization of industry with “codetermination” (Mitbestimmung) as the goal of industrial action. Among these three blueprints, the idea of one union was abandoned due to the strong warnings of the British who were in support of “the surviving trade-union leaders as the only group of anti-Nazis who could be trusted.” The British correctly thought that such a unifying effort would end up generating another internecine strife between workers employed in different industries and trades. The DGB as a federation of various industrial unions, therefore, was a result of British influence on the shaping of postwar Germany.²⁸

Böckler also defined the new West German labor movement as an “economic,” not “struggle,” organization. The emphasis on labor organizations’ ability to earn both “bread and democracy” led union leaders to propose industrial reconstruction as a way to achieve the dual goals. Even after Böckler died in 1951, the DGB followed the principles he set out by stating that: “The experience of the years 1918–1938 has taught that formal political democracy does not suffice for the realization of a truly democratic organization of society. The democratization of political life must be supplemented by democratization of economic life.” The inflation of 1951–1952 along with rising unemployment was also a contributory factor toward the adherence to the early postwar commitments. Although

²⁷ Hartrich, *Fourth and Richest Reich*, pp. 174, 176.

²⁸ *Ibid.*, p. 177.

the DGB was equipped with a new Keynesian wage policy that called for higher wages for productivity enhancement, inflation consciousness among the working class as a whole put a brake on the implementation of wage militancy. Strikes were almost non-existent. The average loss of workdays between 1951 and 1962 was 4.9, while that for Britain was 27.2. It was in part due to a still higher unemployment—about 1.3 million men roaming on the street for the first two years after the launch of the Bonn regime. Another explanation for the low incidence of strikes was the fact that “from 1951 onward, the gross weekly earnings of the industrial worker began to steadily forge ahead of the cost-of-living index.” Of course, the Korean War boosted the export sector, but Erhard’s supply-side policies began to produce some tangible results at the time. “Class conflict was suspended in exchange for the dividends of growth.”²⁹

TABLE 5.1
Wage Increase, 1948–1953

Year	Cost of Living*	Industrial Wages (%)
June 1948	152	100.7
June 1949	169	130
June 1950	156	150.5
June 1951	169	181
June 1952	171	187
June 1953	169	201

* 1938 = 100.

Source: Edwin Hartrich, *The Fourth and Richest Reich* (New York: Macmillan, 1980), p. 180.

²⁹ Charles S. Maier, “The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Western Europe,” *American Historical Review* 86 (1981): 349; Klausen, *War and Welfare*, pp. 193–94; Kathleen A. Thelen, *Union of Parts: Labor Politics in Postwar Germany* (Ithaca: Cornell University Press,

The organizational structure of the DGB also had the effect of discouraging labor leaders to call a strike. Although theoretically sixteen industrial unions within the DGB were independent actors, they had no significant autonomy in financing strike actions. Each and every industrial union, if it was to call a strike, must contact the DGB first and seek approval for its collective action. Otherwise, any industrial actions taken by such unions were considered unofficial. Moreover, the "politics of productivity" were shared by both labor and management throughout the 1950s, although there were attempts to roll back codetermination with the onset of the Cold War both at home and abroad. Organized labor would stick to wage restraint insofar as employers were reinvesting significant amount of profits in their operations, which in turn would increase the job security of workers.³⁰

The politics of productivity came to dominate labor-management relations with the centralization of organized labor, especially as the IG Metall, the metalworkers' union, consolidated its leadership within the DGB. While the business community with no great difficulty restored its organizational cohesion around the inauguration of a conservative government, labor's newly acquired unity still had some internal coordination problems. Despite the formally recognized monopoly of the DGB in collective bargaining, regional unions engaged in negotiations independently of the national union. The lack of intra-union coordination was considered partly responsible for the failure of organized labor to stem the tide of business counterattacks during the early 1950s. The Bremen Accord of

1991), p. 71; Hartrich, *Fourth and Richest Reich*, pp. 179–80; Richard Hiscocks, *The Adenauer Era* (New York: J. B. Lippincott, 1966), pp. 144–45; Kreile, "West Germany: The Dynamics of Expansion," p. 777.

³⁰ Hartrich, *Fourth and Richest Reich*, p. 180; Thelen, *Union of Parts*, p. 73.

1956 provided the IG Metall with an opportunity to bolster its representative status in the national-level bargaining with the BDA (Bundesvereinigung der Deutschen Arbeitgeberverbände), the employers' peak association. Employers also came to prefer negotiation with a peak association of labor rather than individual unions at the subnational level. For employers wanted to get more predictability by "securing agreement from a relatively small number of people whose subsequent compliance is also relatively easily monitored."³¹

The process of reducing the regional autonomy coincided with the penetration of the DGB into the works councils (Betriebsräte) at the plant level. Through the 1952 legislation of the Works Constitution Act the CDU government intended to curb the growing power of the national labor federation. The law deliberately created a "dual system" of labor-management relations by prohibiting unions from representing the shop floor in the plants. However, as the positions of works councilors became filled with activists of the national union, the works councils played a role of supplementing national-level collective bargaining. The so-called "wage drift" factor, "the difference between collectively bargained wage rates and the "effective" wage rate in the plant, i.e., that which employers actually pay," was determined through the works councils' unofficial negotiation with individual employers. This amounted to what Charles Kindleberger called an "incomes policy from above."³²

³¹ Thelen, *Union of Parts*, pp. 81–83; Peter A. Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986), p. 241.

³² Thelen, *Union of Parts*, pp. 16–17, 82; Hall, *Governing the Economy*, p. 242.

CORPORATISM OF THEIR OWN: BUSINESS COMMUNITY
AS ORGANIZER OF WEST GERMAN CAPITALISM

As Christopher Allen correctly pointed out, “one of the least understood, but most important, legacies of nineteenth-century industrialization in Germany was a system of “organized capitalism” that still gives the private sector of Germany a distinctive character.” Despite the American efforts to remake a West German economy as “a free market economy of small producers” and Erhard’s lonely fight to achieve the Cartel Law, the concentration of economic power remained intact. “By 1960 the hundred biggest firms were responsible for nearly 40 per cent of total industrial turnover, and they employed one out of every three workers in industry.” Particularly, the influence of the banking sector on the economy as a whole did not diminish with the breakup of the three largest “universal” banks—the Deutsche Bank, Dresdner Bank, and Commerzbank—into small units because old great bankers were still major players behind the scene. In short, the banking sector reform was a complete failure.³³

Under the circumstances, the newly inaugurated West German government had to invent a new frame for governing the economy in response to two contrasting pressures from opponents and proponents of cartels. The CDU policymakers were not able to carbon-copy *the* American liberal capitalism, even though some of them had a favorable view on the suggestions of the Americans. Instead, they had to strike a balance between liberal and illiberal elements within the German society so they could shape a new political consensus.

³³ Allen, “Underdevelopment of Keynesianism,” p. 266; Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (London: Oxford University Press, 1965), pp. 241–42; Hall, *Governing the Economy*, p. 235; Braun, *German Economy in the Twentieth Century*, p. 151.

It is important here to note that the German tradition was not monolithic. There existed varying interpretations of the genuinely German way of organizing the market. On the one side were the allies of the Americans who saw the “Americanization of the West German economy” as laying the foundation for the reconstruction of Western Europe. Those allies came from the industries that were seeking to internationalize their operations in anticipation of a renewed European market, and from the part of academia and the bureaucracy who believed in the virtues of neoliberal remedies for the German disease. On the other side were the opponents of U.S. German policy, in which decartelization was among the top agenda. They were small- and medium-sized enterprises that comprised the greater part of German industry. How to protect the interests of small business in an increasingly concentrated economy was a major policy question to the Christian Democratic government. Particularly, Erhard linked the need to protect small business with his principle of a ban on cartels. Well aware that the German *Mittelständler* were protectionist in the past, the economics minister argued that the middle classes needed genuine independence if they were expected to adapt to changing circumstances: concentration of industry and economic openness.³⁴ Although he was not in favor of European integration, Erhard was politically resourceful enough to bring up the subject of backlash against economic openness (that seemed unavoidable) in order to achieve his top priority goal, decartelization.

It was in 1957 that *Mittelstandspolitik* as a policy program was declared. “[F]or political cultural reasons it is absolutely necessary that we have a sound middle stratum. We do not want the people to be divided into a small class of economic overlords and a

³⁴ Nicholls, *Freedom with Responsibility*, p. 334.

vast mass of dependents through the ever-increasing concentration of the economy into large firms. We require independent medium and small units in the crafts, trade, business, and in agriculture.” This emphasis on the traditional sectors was a permissive side of the Cartel Law that was primarily a prohibitive approach to restrictive practices on the market. Big business in 1959 responded favorably to this governmental move by issuing the “Charter of Industrial Self-Discipline and Moderation with regard to Concentration.” In the charter, the BDI (Bundesverband der Deutschen Industrie), the industrialists’ peak association, suggested that its members avoid unnecessary takeover of independent firms or realizing excessive economies of scope, i.e., diversifying products beyond their own field.³⁵

Although the West German case is closest to the model of corporatist interest intermediation among the four countries examined here, the 1950s saw a mixed record in terms of tripartite consultation permanently embodied in the policy process. The economics bureaucracy led by Erhard restored a close bilateral relationship with industry soon after the launch of the Bonn regime. In contrast, government-labor relations became regularized at a slow pace partly because the Third Reich had denied labor any form of political partnership. After labor’s proposals for an “economic parliament” (Bundswirtschaftsrat) were frustrated through the establishment of parliamentary sovereignty over economic as well as political issues, government-labor relations were bound to be bilateral rather than trilateral.³⁶

³⁵ Geoffrey Denton, Murray Forsyth, and Malcolm MacLennan, *Economic Planning and Policies in Britain, France and Germany* (London: George Allen & Unwin, 1968), pp. 62, 64.

³⁶ Volker R. Berghahn and Detlev Karsten, *Industrial Relations in West Germany* (Oxford: Berg, 1987), pp. 208–9.

Government-business relations were basically bilateral but not on equal terms. Business community usually stood on the defensive rather than participating in the formulation stage of policy process. For example, when the CDU government during the late 1950s pressured by the left Christian Democrats and the SPD considered “people’s capitalism” policies, business leaders were uncomfortable with the demand for a dispersed ownership of corporate shares and, as a corollary, public knowledge of corporate management. Nonetheless, the BDI did not engage in a wholesale attack on the government and/or the SPD; instead it “call[ed] for less secrecy in business.” The federation advised its members not to deny the schemes of people’s capitalism as a whole but to present alternatives saleable to the advocates of more *social* market economy. After the government bill passed the Bundestag in 1959, the balance sheet was not in the red to the business side. Public ownership of corporate stocks became much wider, but at the same time denationalization of public corporations was also made as a result of negotiations between Adenauer and business leaders. Government-business relations were also intertwined with a rivalry between two CDU leaders, Adenauer and Erhard. A long-time patron of heavy industry, the chancellor never gave warm support to his economics minister’s effort at decartelization. In addition, Erhard’s popularity among the nation as the architect of the social market economy might make the aging chancellor feel more insecure about his political status.³⁷

In the area of industrial relations, the West German business community showed a high degree of unity. Although the BDA was the primary actor in coping with organized

³⁷ Gerard Braunthal, *The Federation of German Industry in Politics* (Ithaca: Cornell University Press, 1965), pp. 262–65; Nicholls, *Freedom with Responsibility*, p. 335.

labor, the BDI closely cooperated with the employers' federation largely because the recently united labor movement was so threatening. The codetermination issue of 1951 was the best example. In the areas of price and wage policy, however, the BDI acted independently of the BDA because such issues were directly connected to the level of profits.³⁸

Indeed, the BDI was more conservative than the BDA in its attitude toward trade unions and their demands. Leaders of the federation including Fritz Berg, its first president, found it hard to adjust to the postwar atmosphere of labor accommodation not just at the political but also social level because their *Weltanschauung* was formed during the Weimar period when the historic Stinnes-Legien Agreement ended up a major source of political stalemate during the short life of the republic. It was mainly because "whereas the entrepreneurs regarded this arrangement as marking the maximum of their concessions, ... the trade unions saw the new achievement as providing a peaceful and riskless point of departure for the further pursuit of their socialist goals." This discrepancy between the viewpoints of capital and labor lessened, if not entirely disappeared, largely due to organized labor's disengagement from the class struggle. However, it took more time for organized business to recognize the trade unions as an indispensable, legitimate partner that shared a common purpose of stabilizing liberal capitalism through economic growth. While the BDI was intransigent in its opposition to the empowering of the trade unions, more liberal-minded BDA leaders like Raymond and

³⁸ Braunthal, *Federation of German Industry in Politics*, pp. 270–71, 275;

Hans Constantin Paulssen proposed “to view the unions as *Ordnungsfaktoren* (factors of stability) rather than as destroyers of capitalism and parliamentary democracy.”³⁹

THE IMPACT OF A SIMPLIFIED PARTY SYSTEM

Of the four countries examined in this study, West Germany represents a case of most qualitative change in formal political institutions mainly due to the abnormality of the fallen regime, defeat in war, and subsequent occupation. “When the War ended the Americans set out to ‘to re-educate’ the Germans.”⁴⁰ However, the Americans could not implant *the* Western, let alone their own, system of democratic government directly on German soil. Instead, they had to find out solutions within the parameter of German political development since the late nineteenth century. The focus was naturally given to restoring party democracy while at the same time eliminating the “centrifugal” elements of the Weimar regime.

In explaining the high level of policy consistency scholars of German politics have pointed to the aspects of *Kanzlerdemokratie*. When we scan major decisions during the 1950s, especially in the area of foreign policy, it seems that “[e]verything depended on the initiative of the right leader.”⁴¹ Adenauer played a crucial role in building a series of collective institutions for a stable liberal subsystem from the North Atlantic Treaty

³⁹ Otto Kirchheimer, “Weimar—and What Then? An Analysis of a Constitution,” in *Politics, Law, and Social Change: Selected Essays of Otto Kirchheimer*, ed. Frederic S. Burin and Kurt L. Shell (New York: Columbia University Press, 1969), p. 37; Berghahn and Karsten, *Industrial Relations in West Germany*, pp. 190–91.

⁴⁰ Hiscocks, *Democracy in Western Germany*, p. 7.

⁴¹ Ironically, this quote comes from the doctoral dissertation of Schumacher who turned out to be a wrong leader. Cited by Edinger as an epigraph of *Kurt Schumacher*.

Organization (NATO) to the European Coal and Steel Community (ECSC) to the European Economic Community (EEC). Between power and plenty, he chose the latter for obtaining dual purposes: assuring doubting neighbors of peace in Central Europe and simplifying the terms of domestic politics. That there will be no greater Germany was a powerful political assumption made by the chancellor. But in the domestic policy process, especially economic, consistency and predictability are more likely when there exists an institutionalized policymaking structure, not just a preeminent leader. Of course, instead of too politically oriented, "follow me"-style Adenauer, Erhard provided a "let's think about it" leadership that was more suitable for the economic policy process. But at the detailed formulation and implementation stage, Bonn had to depend on a decentralized, but highly coordinated bureaucracy. There existed a "strict division of control over fiscal and monetary policy between the Ministry of Economics, the Ministry of Finance and the Deutsche Bundesbank."⁴² Despite the popular belief that Germany has had one of the strongest states in Europe (even in the world) since the days of Bismarck and that the Bonn Republic inherited the strong state tradition, the economic policy process was not dominated by top executives of the government.

The predominance of the Christian Democrats in early postwar German politics is an indication of the weak influence of electoral systems on party politics at large. Although the 5 percent threshold for a proportional distribution of Bundestag seats greatly contributed to the consolidation of two (or 2.5 at the largest)-party system, it was the already simplified party system itself that pushed for such a restrictive legislation. At least until 1966 when the leadership vacuum within the CDU led to the historic Grand

⁴² Hall, *Governing the Economy*, p. 234.

Coalition with the SPD, West German politics was characterized by what T. J. Pempel called “a virtuous cycle of dominance.” In the words of Pempel:

A dominant party must gain at least an electoral plurality, which means dominance in socioeconomic mobilization. It must also enjoy or create a bargaining advantage vis-à-vis other political parties so it remains at the core of any coalitions that are formed. Then, it must remain in office long enough to implement its historical agenda. Finally, while in office it must be able to implement that historical program and use the instruments of state so as to isolate its opposition and strengthen its own electoral position.

This description fits exactly with what the Christian Democrats achieved during the period of 1949 to 1966. The bare majority with which they won the founding election of 1949 fell far short of creating a longer-lasting power basis for a new policy package. Thus the CDU allied with the Free Democrats (FDP) and the Deutsche Partei (DP) to form a center-right coalition and further the political isolation of the SPD. The “perennial chancellor” Adenauer shrewdly applied coalition politicking in order to break through domestic and foreign situations. At the same time the CDU-led conservative governments delivered the promises in the Ahlen program to a significant degree. “Among them are the Law on the Equalization of (wartime) Burdens, enacted in 1952; the introduction of children’s allowances in 1954; the extension of medical coverage to pensioners and nonmanual workers (1957, 1961, 1970); a sweeping reform of retirement pensions in 1957 that introduced supplementary benefits reflecting individual differences in wages; and various laws designed to encourage profit sharing and individual ownership (1959, 1961, 1963).”⁴³

⁴³ Loewenberg, “Remaking of the German Party System,” pp. 88–89; Pempel, “Introduction: Uncommon Democracies: The One-Party Dominant Regimes,” in *Uncommon Democracies: The One-Party Dominant Regimes*, ed. idem (Ithaca: Cornell University Press, 1990), p. 16; M. Donald Hancock, *West Germany: The Politics of Democratic Corporatism* (Chatham, N.J.: Chatham House, 1989), pp. 97–98, 144.

It must be noted here that the three defeated nations in the Second World War—Germany, Italy, and Japan—each developed a regime dominated by one conservative party in the early postwar years. Such a coincidence should not be surprising considering the ease with which the United States could build a bulwark against Communism. After 1947 Americans could impose their “reverse course” upon the countries with more unilateral actions especially by taking advantage of the weakened and divided situation of the left in those countries. Such a commonality, however, must be balanced with an important difference: the SPD’s electoral setbacks were self-imposed, while the Italian and Japanese Socialist parties were of lesser political influence than their Communist competitors.⁴⁴ Thus one-party dominance in West Germany was an outcome of as much domestic as external developments.

The impact of simplified party politics on the economic policy process was felt in a most dramatic course of events at the end of the 1950s. The SPD at the 1959 Bad Godesberg congress jettisoned its century-old Marxist doctrines including socialization of industry and recognized free market economy as a legitimate mode of regulating production. The historic turning point in the oldest German party was an outcome of two successive electoral defeats during the decade. In actuality, the SPD vote at the 1953 and 1957 elections increased, but the CDU/CSU vote did at a much greater rate. The Christian Democrats also benefited from the reinforced 5 percent clause that almost eliminated smaller parties as significant contestants. Such an electoral pressure coincided with the change in economic policy paradigm within the SPD leadership since the 1954 party congress. Karl Schiller was the economist who provided the leadership with a theoretical

⁴⁴ Pempel, “Introduction: Uncommon Democracies,” pp. 26, 28.

foundation for adapting the party to changing social conditions. The phrase coined by Schiller in 1954, “as much competition as possible, as much planning as necessary,” became a watchword for the SPD that began to transform itself from an “opposition of principle” to a *Volkspartei*.⁴⁵

TABLE 5.2
Bundestag Election Results, 1946–1957

Party	1946–1947*	1949	1953	1957
CDU/CSU	38.5% —	31.0% (139 seats)	45.2% (244 seats)	50.2% (270 seats)
SPD	35.7% —	29.2% (131 seats)	28.8% (151 seats)	31.8% (169 seats)

* First state constituent assembly or legislature elections.

Source: Gerhard Loewenberg, “The Remaking of the German Party System: Political and Socio-Economic Factors,” *Polity* 1 (1968): 110.

The traditional left-wing party’s attitude towards competition and the market mechanism was significantly “liberalized” through the efforts of Schiller who argued that the issue was not a question of freedom versus regulation (*Bewirtschaftung*), but of state regulation versus regulation by private pressure groups. Erhard and his fellow neoliberals chose the latter option, while for the SPD politicians state regulation was the only reasonable and legitimate course of action.⁴⁶ Despite such remaining disagreements, the

⁴⁵ Denton, Forsyth, and MacLennan, *Economic Planning and Policies*, p. 76; Carr, “German Social Democracy since 1945,” p. 196. However, Schiller’s new economic paradigm was not a wholehearted acceptance of the social market economy. As a “post-Freiburg” Keynesian, Schiller had advised the SPD and DGB to sell Keynesian reflationary policies to their constituencies as a corrective action against the drawn-out austerity. See Allen, “Underdevelopment of Keynesianism,” p. 276.

⁴⁶ Nicholls, *Freedom with Responsibility*.

post-Schumacher SPD exemplified the impact of two-party competition on the policy repositioning in an era of mass politics.

Another change Godesberg brought to the SPD was the party's acceptance of foreign policies pursued by Adenauer. The program included a "support for NATO and recognition of the alliance's role as prime guarantor of West Germany's defense." With the KPD being made illegal by the Federal Constitutional Court in 1956, the Social Democrats remained the only major party against the Western alliance; such a situation was hard enough.⁴⁷

THE *DEUTSCHE FRAGE* RESOLVED WITHIN EMBEDDED LIBERALISM?

With the end of World War II Western Europe entered into a period of structural reliance on America's newly acquired hegemonic power. If one views the two world wars as the most direct and violent confrontation between Anglo-American liberal subsystem and German (and Japanese) illiberal one, the end of World War II may be conceived as the defeat of the German model over the leadership in the world economy. The growing tension between the East and West added to the American concern with securing "an ideological conformity built around the 'open door' and liberal capitalism"⁴⁸ in Western Europe. Despite these international pressures, however, many Western European countries managed to retain their national system of capitalist economy equipped with a wide variety of social protection institutions. The best example comes from the case of

⁴⁷ Diane L. Parness, *The SPD and the Challenge of Mass Politics: The Dilemma of the German Volkspartei* (Boulder, Colo.: Westview Press, 1991), p. 70; Loewenberg, "Remaking of the German Party System," p. 108.

⁴⁸ Maier, "Issue Then Is Germany and With It Future of Europe," p. 2, n. 2.

France, which was stubborn in keeping *dirigisme* intact as much as possible. Compared with its continental neighbors, West Germany showed a greater degree of Americanization in the economy as well as polity. The Bonn regime during much of the postwar years was characterized by a high level of political and policy consensus between two major parties, industrial leadership of internationally oriented, capital-intensive sectors, and the presence of pragmatic organized labor.

But the Americanization of the West German political economy should not be exaggerated to the point of ignoring the German origins of the postwar policy innovations. "The defeat, division, and chaos which Germany suffered in the 1940s did not wipe out the legacy of the past; it only lifted temporarily the pressure of history. When the Germans began to reconstruct their economy, they built upon the familiar structural foundation ..." Although Christian Democratic politicians and some historians described the new West German economy as basically *neoliberal*, the usage of the term in the country was quite different than in the Anglo-American world and even continental European neighbors. As A. J. Nicholls explained, the German tradition of liberal economics housed in the so-called Freiburg school comprised two variants, *ordo-liberalism* and *neoliberalism*. To be sure, at the formative period of the social market economy Erhard's neoliberalism sold better on the electoral as well as real markets. As the reconstruction phase ended and the economy stabilized, however, *ordo-liberal* ideas gained more currency. In a sense, the post-1945 regime of embedded liberalism was perhaps a liberal subsystem most favorable to the German political-economic structure. Klausen suggested a possible explanation of the reconciliation of Germany and the rest of the liberal community by saying: "The constraints imposed by "embedded" liberalism

were malleable and did not actually determine national policies. Political actors had latitude to chart out national development programs.”⁴⁹

On the other hand, West Germany’s rapid reconstruction and full-scale return to the world power society made it easier for the United States to accept the trend of organized capitalism with national looks as diverse as *dirigiste* industrial policy in France, Keynesian welfare state in Britain, and the social market economy in Germany. As Charles Maier put it: “The surprising centers of growth in the 1950s and 1960s were West Germany, Japan, and, though a smaller economy, Italy. West Germany and Japan, above all, became virtual engines of capital accumulation. As such, they played a critical role in U.S. encouragement of an international coalition of liberal polities with mixed capitalist economies.”⁵⁰ Tension between Anglo-American liberalism and European collectivism became more relaxed, if not solved, than ever.

This peaceful inscription of German capitalism on the template of a new liberal subsystem, however, accompanied the incorporation of the country into the secular trend of the 1950s: the waning, not end, of ideology and the increasing importance of economic matters to ordinary citizens. Politically, the consolidation of a virtual two-party system sharply reduced the stakes involved in partisan contest over the policy process. The big struggle between two camps of capital and labor gave way to small, if not insignificant, competitions within the limits of the social market economy. The *Wirtschaftswunder* of the 1950s provided a material base of consensus at the elite level and political

⁴⁹ Shonfield, *Modern Capitalism*, p. 240; Nicholls, *Freedom with Responsibility*; Roberts, *German Politics Today*; Klausen, *War and Welfare*, pp. 168–69.

⁵⁰ “Two Postwar Eras,” p. 348.

indifference at the mass level. “The average monthly income of a West German family has risen from 343 DM (about \$83) in 1950 to 759 DM (about \$183) in 1960. In terms of 1950 prices, this represents a rise in real income of 86.7 per cent.” Such an unprecedented prosperity continued well into the 1970s in the face of the oil crisis, and Chancellor Helmut Schmidt in 1975 even remarked, “[O]ur economic policy has simultaneously been our *foreign policy*.”⁵¹ The relevance of politics seemed sharply diminished in foreign as well as domestic policy areas.

The discussion in this chapter again informs us that there existed, despite the vogue for the convergence thesis in the 1950s, many unique national responses to the penetration of the international liberal economy. Each country had its own institutional arrangements by which to modify and in the long term domesticate the rules and norms of the liberal market forces. Liberal principles such as free competition on the market had to pass through those arrangements and were finally compromised.

The point here is that one should be careful when comparing nations, say Germany and the United States, in terms of affinity with the rules and norms of liberal capitalism. How liberal an economic system is must be measured in historical, if not necessarily relative, terms. For a criterion that passes for the indication of a liberal economic system in Europe is likely to be perceived as a collectivist disguise for rent seeking in America, and vice versa. This exercise of caution in comparison is justified especially when we recall that since the start of the Bonn Republic West German policymakers have stressed the low profile of central government in the management of the economy and the crucial role the private sector played. Combined with national sentiments, West German business leaders

⁵¹ Braunthal, *Federation of German Industry*, pp. vii–viii; Hartrich, *Fourth and Richest Reich*, p. 5.

and political elites had a despising view of French planning, while American and British policymakers commissioned their think tanks to study the Gallic success story. As explained above, this extraordinary—compared to other European countries—desire for a liberal capitalist Germany reflects the Germans' need to break with the fascist past. But inside the assumed liberalism existed illiberalism that was resilient enough to make itself work in a new environment. "[W]hat had to be done was essentially to reconstruct something which had existed before. The guide-lines were provided by the past."⁵² In short, there were Teutonian limits to Americanization. As Maier's dictum, "Bonn ist doch Weimar,"⁵³ suggests, the past lasted much longer than the Americanization thesis would lead us to believe. The persistence of such Germanic institutional arrangements as the strong Bundesbank, decentralized policymaking process, cooperative labor-management relations, etc. in the face of assimilating globalization makes the German political economy a source of international policy coordination problems. For "Berlin ist doch Bonn."

⁵² Shonfield, *Modern Capitalism*, p. 275.

⁵³ "Bonn ist doch Weimar: Informal Reflections on the Historical Legacy of the Federal Republic," in *Political Economy of West Germany*, ed. Markovits, pp. 188–98.

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CHAPTER SIX

Disembedding or Reembedding?

Labor Market and Political Institutions in an Era of Globalization

... so long as it remains understood that it is a dilemma, both parts of which have to be accommodated, the normative framework of embedded liberalism will endure as a central institutional feature of the international economic order.

John Gerard Ruggie, 1982

STILL THE CENTURY OF EMBEDDED LIBERALISM?

WHEN THE STRUCTURE of embedded liberalism as an international economic subsystem emerged at the end of the Second World War, it was an effort to combine an economic good (liberalism) and a political good (embeddedness) within a “club of like-minded states.” Major industrial nations shared one social purpose: international economic liberalization should not be pursued at the expense of domestic stability and vice versa. Fulfilling that social purpose required two conditions: national macroeconomic autonomy and labor peace. Equipped with decisionmaking autonomy in monetary and fiscal policy areas, governments could prevent the international flows of trade and capital from disrupting the working of the national economy. At the same time, labor market regimes for accommodating working-class demands allowed governments to adjust to the international economy without externalizing its costs onto other countries. In short,

embedded liberalism was designed to reorient national political economies somewhere between “internal” and “external” adjustment to the rules of international liberalism.¹

It has been widely agreed among scholars that such a happy coexistence of international liberalism and domestic interventionism lasted well into the 1960s, especially when backed by sustained economic growth without severe inflation across the liberal community. While it is true that conclusion of a major war was often followed by a round of economic boom and that after 1945 massive reconstruction efforts fueled the industrial spurt in Western Europe, the post-World War II upswing in capitalist production marked a jump to a qualitatively new stage with standardized mass production industries being leading actors. Mass production corporations with a high degree of capital intensity, largely due to the lower wage costs as a proportion of value added in production, were in a better position to accept the mass politicians’ scheme to avoid another economic recession and labor unrest: welfare state through government spending.²

Transatlantic co-prosperity coincided with America’s ascendancy as new hegemon. The United States was, in contrast to its ambiguous record in enhancing internationalism during the interwar years, both able and willing to rebuild the international liberal order with its predominant economic and military power. U.S. policymakers were concerned with breaking the chains between depression, economic nationalism and war; and with containing the perceived threat of communism. Growing out of different sources, the two

¹ Beth A. Simmons, *Who Adjusts? Domestic Sources of Foreign Economic Policy during the Interwar Years* (Princeton: Princeton University Press, 1994), pp. 3–4.

² Ronald W. Cox and Daniel Skidmore-Hess, *U.S. Politics and the Global Economy: Corporate Power, Conservative Shift* (Boulder, Colo.: Lynne Rienner, 1999), pp. 22, 34 (n. 4).

concerns became closely intertwined after 1947. American toleration of European welfare state (often discriminating against U.S. exports) was the price the U.S. policymakers and business community had to pay to protect the liberal subsystem from the “red temptation.”³ In sum, the embedded liberalism compromise could function with effectiveness and predictability because of common social purpose of reconciling the domestic with international political economy, high levels of economic growth based on standardized mass production system, and U.S. hegemony under the emerging structure of bipolarity.

The golden era of embedded liberalism, however, turned out to be very short. Since the 1970s the material base of the postwar settlement in major industrial democracies has come under great strain. U.S. economic supremacy became challenged by the rise of West Germany and Japan as new trading and financial centers of the liberal subsystem. Economic growth through the enhancing of mass purchasing power began to lose its meaning mainly because inflation went up beyond the level compensatory wage increases could cope with.⁴ In addition, the growing importance of regional trading blocs led many observers to doubt the ability of multilateral institutions to govern international economic transactions. Now that the threat of communism that had served to glue together participants in the liberal subsystem disappeared, international policy coordination became more difficult to achieve than ever.

³ Robert O. Keohane, “The World Political Economy and the Crisis of Embedded Liberalism,” in *Order and Conflict in Contemporary Capitalism*, ed. John H. Goldthorpe (Oxford: Clarendon Press, 1984), pp. 19–21.

⁴ Charles S. Maier, “The Politics of Inflation in the Twentieth Century,” in *The Political Economy of Inflation*, ed. Fred Hirsch and John H. Goldthorpe (Cambridge: Harvard University Press, 1978). Also see Leon Lindberg and Charles S. Maier, eds., *The Politics of Inflation and Economic Stagnation* (Washington, D.C.: Brookings Institution, 1985).

Moreover, those observations have in recent years served as empirical grounds for policy ideas that aim to disembed liberalism from the social duties recognized legitimate for the past half a century. For proponents of disembedded liberalism, cutbacks in welfare spending and erosion of organized labor power in the policy process—two most visible empirics of disembedded liberalism—are an inevitable outcome of growing interdependence of the world economy. Although interdependence has been a central property of the liberal subsystem from the start of the postwar regime on, competitive capital decontrol across the major industrial nations since the 1970s has been increasing the tendency of interdependence to undermine national sovereignty in macroeconomic policymaking.

I do not argue that embedded liberalism will enter the new century without any significant changes in its structure. Nor do I follow the globalization thesis that a second round of *disembedded* liberalism will inevitably take the place of the postwar compromise. Rather, I suggest a model of the liberal subsystem that is a reorganization of the original version. If embedded liberalism in its heyday was close to an array of policy innovations made by core elites of politics and business (and sometimes labor leaders), its *reembedded* version is driven by what I call “democratic inertia,” a tendency of social and political institutions to mitigate the disruptive effects of globalized market forces outside the democratic control of national polities.

Labor market institutions for working-class accommodation have been subject to significant revisions by governments and employers as well as workers themselves, in tandem with changes in industrial structure, employment patterns, and external market

conditions. Social protection function assumed (in fact, almost monopolized) by the national government is likely to be disaggregated into several different public programs, transferred to governments of lower levels and even to some private providers; it is not eliminated from the policy process. Electoral competition over the support of increasingly volatile voters pressures political parties to pay attention to the voices of groups who are devoted to defending their past privileges from structural economic changes, especially when their grievances are effectively expressed into the policy process. As Dani Rodrik observes, “democracies pay higher wages.”⁵ Domestic stability continues to be viewed as a political good, but within the limits set by international liberalization.

This line of argument is, of course, not a new one. Many critics of globalization have concluded by pointing to the urgent need to search for a reembedding option. Two distinct trends can be found within the vast literature. One sees a transnational network of civil society—encompassing not just labor movements but also various new social movements led by feminists, environmentalists and so on—as counterpressure against the destructive wave of global liberalism. The other views the globalization process as driven by individual governments’ *political* choice rather than automatic market forces in an increasingly open world economy; and expects national governments to assume the role of moderating the disruptive effects of further marketization.⁶ My argument resembles the second viewpoint more than the first one. Embedded liberalism, as it emerged at the end of World War II, was a political choice made by the United States in consultation with

⁵ “Democracies Pay Higher Wages,” *Quarterly Journal of Economics* 114 (1999): 707-38.

⁶ For examples of each approach, see James H. Mittelman, *The Globalization Syndrome: Transformation and Resistance* (Princeton: Princeton University Press, 2000), pt. 3; Ethan B. Kapstein,

Britain and followed by other West European countries. In the face of a more globalized world economy, any national governments that go for the reembedding option would need to “recycle” effectively the institutional resources of the postwar welfare state.

This concluding chapter is set out in six sections. In the next section I describe aspects of disembedded liberalism instead of reproducing evidence that supports varying forms of the globalization argument partly because I consider the descriptor disembedded liberalism more specifying than globalization. The third section looks back into the 1950s that saw the emergence of embedded liberalism as a new international economic order by summarizing the arguments in the previous country chapters. The fourth provides a rough assessment of the extent to which those founding conditions of the 1950s have been maintained since the 1980s. The fifth associates the possibility of reembedding with “path dependency” of embedded liberalism institutions. I conclude with a discussion of international policy coordination problems in a regime of reembedded liberalism.

SYMPTOMS OF DISEMBEDDED LIBERALISM

There are so many empirical indicators of globalization from more trade flows and ever-increasing capital mobility to migration across the national borders to cultural homogenization. I have no intention to belittle the importance of such diverse aspects of globalization; but here it is more crucial for the purpose of this study to examine to what extent economic globalization has affected two pillars of embedded liberalism—freer

trade coupled with capital controls and domestic consensus over the comprehensive welfare state—for the past two decades.

Since the late 1970s, scholars and pundits alike have emphasized the new protectionism in the guise of regional free-trading systems, and wildly used a historical analogy to the interwar beggar-thy-neighbor policies. “If economic discrimination accelerated movement toward economic closure during the 1930s, then conditional reciprocity, preferential debt servicing and lending, and regionalization of monetary relations may lead toward closure of the contemporary economic order.”⁷ The waning of multilateralism in trade has been construed as indicating the long overdue collapse of embedded liberalism as an international economic subsystem by conservatives and radicals alike. Multilateralism in trade could fare well during the two decades after the end of World War II largely due to the hegemonic role of the United States as a financier of the free-trading system. The closing of the gold window in 1971 and the subsequent (or concomitant) rise of West Germany and Japan as equivalents rather than subordinates in economic strength made inevitable the redeploying of the trading system into three regional centers: Western Europe, North America (plus its southern neighbors), and East Asia. This redeployment has been exaggerated as “trade wars,” reminiscent of the gloomy interwar years by alarmist commentators. When in the mid-1980s the United States was pushing for reciprocity in trade against the “unfairness” perpetrated by its trading

⁷ Kenneth A. Oye, *Economic Discrimination and Political Exchange: World Political Economy in the 1930s and 1980s* (Princeton: Princeton University Press, 1992), p. 203.

partners, especially by Japan, the international political economy literature was replete with the two overlapping trends of hegemonic stability theory and “declinist” arguments.⁸

While those concerns dramatically reveal growing tension within the liberal community, major industrial nations did not plunge into an economic warfare to the point of compromising the norms and principles of international liberalism. To the extent that trade protectionism marred the framework of the postwar economic order, as Eric Helleiner tellingly argued, it was because “states have found it difficult simultaneously to maintain both a liberal financial order and a liberal trading order.” It would be more accurate to describe the new trading system, following Beth Yarbrough and Robert Yarbrough, as “minilateralism” or “layered lateralisms.”⁹ It is a liberal subsystem of the kind that needs a more complex, sophisticated institutional arrangements among its participants to produce mutually beneficial policy outcomes.¹⁰ In other words, the liberalism side of the postwar compromise cannot be said to be in serious danger in the face of protectionist sentiments aroused by populist politicians.

John Ruggie, who has predicted the survival of the postwar subsystem, suggests another, more real source of decay of embedded liberalism: the gradual break-up of

⁸ Richard Higgot, “Beyond Embedded Liberalism: Governing the International Trade Regime in an Era of Economic Nationalism,” in *Globalization and Public Policy*, ed. Philip Gummert (Cheltenham: Edward Elgar, 1996), p. 25.

⁹ Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca: Cornell University Press, 1994), p. 207; Yarbrough and Yarbrough, *Cooperation and Governance in International Trade: The Strategic Organizational Approach* (Princeton: Princeton University Press, 1992), chap. 5; idem, “Regionalism and Layered Governance: The Choice of Trade Institutions,” *Journal of International Affairs* 48 (1994): 111–14.

¹⁰ I discuss this problem of multilateral policy coordination in the concluding section.

domestic class compromise.¹¹ The embeddedness side of the compromise seems in real danger because governments during the past two decades have competitively devoted themselves to the flexibilization of labor market and cutback of social welfare spending. The danger looms large when considering that some politicians and business leaders no longer seem to consider labor peace worthy of elaboration as a baseline of the liberal subsystem. Rather, they tend to see labor quiescence as an automatic result of globalization. For them, the century of embedded liberalism is over.

The dual process of capital mobility and offshore production coincided with the weakening, if not total disintegration, of the domestic consensus over the direction and contents of the welfare state. Particularly, the impact of more internationalized liberal subsystem was greater on the labor market than any other social realms. Since the days around World War I regulating labor has been basically a *national* business, although there have been attempts (like the International Labor Organization [ILO]) to standardize at the international level the norms and rules of labor market institutions. Transnational bodies like the ILO found its basic function in improving the quality of national labor market regimes by setting an acceptable minimum standard. They were neither willing nor able to encroach upon the national jurisdictions over the management of labor issues. This national closure began to breach as the growing power of “footloose” capital placed pressure upon national governments to drastically change their traditional approaches to the labor market.

¹¹ “Trade, Protectionism and the Future of Welfare Capitalism,” *Journal of International Affairs* 48 (1994): 1–2. Also see idem, *Winning the Peace: America and World Order in the New Era* (New York: Columbia University Press, 1996), chaps. 5 and 6.

Organized labor was also pinpointed as the main culprit of protectionist measures widespread among the advanced industrial nations, especially from the viewpoint of U.S. experience. According to the view, negative import competition from Japan and West Germany led large employers such as the automobile industry to lay off their workers; and consequently unions that lost members turned to protectionist lobbying. By comparison with the American Federation of Labor and Congress of Industrial Organization (AFL-CIO)'s postwar endorsement of free trade, the emergence of "parochial" workers concerned with employment security seemed indicative of the end of embedded liberalism.¹²

Milton Friedman, the economist who led the renewed attack on postwar state interventionism, took this opportunity to call for "one price for one good" anywhere in the world. For him the current degree of globalization is never enough.¹³ Although Friedman's complaint is ideologically loaded, his observation that globalization of the present day falls far short of the pre-World War I level of economic openness is accurate. A cautious examination of the historical evolution of the liberal world economy would, therefore, confirm that the postwar framework for regulating international economic transactions, especially capital flows, was based on neither purely economic calculations nor entirely political manipulation.

¹² Michael Wallerstein, "Unemployment, Collective Bargaining, and the Demand for Protection," *American Journal of Political Science* 31 (1987): 729–30.

¹³ John Gerard Ruggie, "At Home Abroad, Abroad at Home: International Liberalisation and Domestic Stability in the New World Economy," *Millennium* 24 (1994): 516.

As Charles Maier aptly said, “the politics of productivity rested upon the reality of productivity. The system paid off.”¹⁴ Embedded liberalism was not forcefully imposed upon the debilitated entrepreneur by the collectivist alliance of big labor and big government to pave the “road to serfdom.” It was essentially a defensive measure taken by moderate (conservative or liberal) political elites in consultation with leading factions of the business community. Business “quiescence was not a symptom of weakness or dependency. Instead, it was a product of the class-intersecting, cross-class alliance ... that routinely served mutual interests of sectoral groupings that dominated employer and union confederations.” Organized labor was invited to, rather than led, the process of constructing socially fortified liberal capitalism. “Our analyses must accordingly begin a half century ago.”¹⁵

FOUNDING CONDITIONS OF EMBEDDED LIBERALISM IN THE 1950S

Embedded liberalism was conceived as a framework for governing the world economy by the U.S. and British policymakers during the 1940s. The concatenated disasters of the interwar period strongly motivated the two authors of the Bretton Woods system to steer a middle course between a free play of market forces and autarchic state intervention on a subsystemic scale. The Anglo-American determination to make such a compromise was

¹⁴ “The Politics of Productivity: Foundations of American International Economic Policy after World War II,” *International Organization* 31 (1977): 632.

¹⁵ Peter Swenson, “Bringing Capital Back In, or Social Democracy Reconsidered: Employer Power, Cross-Class Alliances, and Centralization of Industrial Relations in Denmark and Sweden,” *World Politics* 43 (1991): 514; Gøsta Esping-Andersen, “Politics without Class? Postindustrial Cleavages in Europe and America,” in *Continuity and Change in Contemporary Capitalism*, ed. Herbert Kitschelt, Peter Lange, Gary Marks, and John D. Stephens (New York: Cambridge University Press, 1999), p. 295.

corroborated largely because the two countries each had been exposed to, albeit in varying degrees, heterodox economic policy ideas during the much of the 1930s and 1940s. Particularly the United States under the New Deal saw the old liberal pluralist regime inherited from the nineteenth century replaced by what Theodore Lowi called “interest group liberalism,” which meant the realignment of organized interests in favor of the regulatory interventionist state.¹⁶ In the other two countries, France and West Germany, policymakers and organized interests had to shape the embedded liberalism compromise in the context of uneasy relations with the past. While the war and victory gave the Americans and British an opportunity to overcome the depression and suppress domestic opposition to wartime corporatist schemes, the war and defeat rendered heterodox economic policies under the Nazi and Vichy regime unacceptable to the West German and French policymakers as well as the Americans and British. However, the West German and French solutions to postwar reconstruction (and modernization in France) were far from a direct implantation of liberal market economy. Instead, the *soziale Marktwirtschaft* and *planification* were devised as ways of liberalizing the domestic political economy while minimizing the dislocations among the societal interests organized according to the illiberal (or “traditional”) principles. This suggests the importance of national characteristics in “recasting the bourgeois world” in the 1950s.

In the United States, embedded liberalism was domesticated through the combination of welfare state with welfare capitalism. The development of American welfare state was

¹⁶ Lowi, *The End of Liberalism: The Second Republic of the United States*, 2nd ed. (New York: W. W. Norton, 1979), pp. 50–63; Marc Allen Eisner, *Regulatory Politics in Transition* (Baltimore: Johns Hopkins University Press, 1993), chaps. 4 and 5. Thomas Ferguson provides a more explicit account of the causal relationship between interest group (or corporate) liberalism and the New Deal welfare state in “From

belated relative to other European countries; and it was pursued during the New Deal in the face of resistance from the majority of business community. Particularly important is the fact that a minority of business leaders in capital-intensive industries with great European interests provided the Roosevelt administration with needed support at the second phase of the New Deal. As their most promising markets were to be found abroad, and their corporations relied less on simple labor productivity, corporate liberals could live with the extension of social welfare programs at home and participate in the war efforts in a capacity of more than private suppliers. In such an unusual circumstance of the late 1930s and 1940s, the liberal faction of big business could go hand in hand with big government, and with big labor on a more limited condition.¹⁷

The Truman administration failed to extend the New Deal framework in a way that would satisfy all the elements of the “motley crew” coalition formed during the mid- to late 1930s. Instead, the Fair Deal turned out to be a compromise between the internationalist Democrats and the Republicans tied to domestic oriented industries. More welfare and labor accommodation at home were erased from the policy agenda in favor of America’s commitment to protecting the zone of freedom from the threat of Soviet expansionism. This consensus of Cold War liberalism continued to dominate the American political economy even after the Truman administration lost the White House to the Republicans partly as a result of the Korean War. Although Eisenhower won the 1952 election by promising the war-weary Americans “reasonably priced security,” it did

Normalcy to New Deal: Industrial Structure, Party Competition, and American Public Policy in the Great Depression,” *International Organization* 38 (1984): 41–94.

¹⁷ Ferguson, “From Normalcy to New Deal,” pp. 85–88.

not take long for the former general to realize that fighting a cold war was a very costly business. Eisenhower's commitment to austerity could not be pursued as conceived initially in the areas of social welfare and public spending, either. Indeed, Eisenhower envisaged the transformation of the GOP as the representative of parochial, nationalist interests into a modern, centrist party. The president and his economic advisers did not engage in the wholesale attack on the New Deal welfare state. Instead, during the Eisenhower presidency the federal bureaucracy dealing with social welfare provision remained intact in not just the personnel but also its organizational goal of "increasing the number of direct federal welfare services."¹⁸

The 1950s were also a time when American workers saw the reemergence of welfare capitalism as an informal institution for labor-management conflict resolution. Unlike its nineteenth-century precursor, welfare capitalism of the mid-twentieth century was more than a paternalist method of supervising employees practiced by some communitarian-minded industrialists; it was institutionalized as a workplace application of the politics of productivity by leading corporations of what Thomas Ferguson called the "multinational bloc." General Motors introduced a cost-of-living escalator in its determination of wage increases as early as 1948. GM also concluded in 1955 the "Treaty of Detroit" with the United Automobile Workers (UAW) that established a five-year contract as a normal pattern of employment for mass production industries. "General Electric redesigned and widened its employee pension system. IBM put a large number of employees on a yearly

¹⁸ Mark R. Brawley, *Afterglow or Adjustment? Domestic Institutions and Responses to Overstretch* (New York: Columbia University Press, 1999), pp. 244–45; Kim McQuaid, *Big Business and Presidential Power: From FDR to Reagan* (New York: William Morrow & Co., 1982), pp. 169–70; idem, *Uneasy Partners: Big Business in American Politics, 1945–1990* (Baltimore: Johns Hopkins University Press,

salary and ended worker dependence upon an hourly wage.” Fringe benefits as an American name for social wages during the 1950s rapidly spread to non-unionized as well as unionized sectors.¹⁹

This company-based welfare regime complemented by employment-tied Social Security programs fit nicely with the interests of well-organized workers employed in such capital-intensive, multinational sectors. Well before the advent of the New Deal, U.S. labor organized by the AFL had taken the path toward “business unionism” that deliberately avoided any direct involvement with the federal government and political parties. Instead, the AFL’s voluntarism sought to “settle with” employers on a local basis. Although the CIO presented itself as a more class-based, national center of labor, it was far from industrial unionism of the kind that one could see in some European countries, say, West Germany. Big labor’s organizational power could be felt mostly in a minority of big companies; and the negotiated outcomes there were copied by other companies with similar structural position. In exchange, organized labor recognized employers’ “right to manage” in the production process.

Since embedded liberalism was in part a reflection of the New Deal regulatory state,²⁰ America’s adjustment to the new liberal subsystem seemed more endogenous than other club members. For West Germany and France, albeit in varying degrees, adjustment to

1994), pp. 73–74; Edward Berkowitz and Kim McQuaid, *Creating the Welfare State: The Political Economy of Twentieth-Century Reform* (New York: Praeger, 1980), p. 150.

¹⁹ Berkowitz and McQuaid, *Creating the Welfare State*, p. 136.

²⁰ Anne-Marie Burley, “Regulating the World: Multilateralism, International Law, and the Projection of the New Deal Regulatory State,” in *Multilateralism Matters: The Theory and Praxis of an Institutional Form*, ed. John Gerard Ruggie (New York: Columbia University Press, 1993), pp. 125–56.

embedded liberalism was a more exogenous process partly as a result of the war.²¹ Britain's relation to the liberal subsystem was subtle and resists easy description in either term. The foregone hegemon co-authored the scheme for transatlantic co-prosperity together with its American successor. While agreeing with the United States on multilateralism in trade and international capital pool in the forms of the International Monetary Fund (IMF) and World Bank, British policymakers successfully resisted the "dollarization" of their economy. Defense of the sterling against the power of the dollar continued to be top policy priority. The City of London's hegemony over the British economy was not challenged throughout the 1950s. Whenever Keynesian macroeconomic policies for stimulating industrial production and ensuring full employment seemed to threaten balance of payments equilibrium, British governments did not hesitate to deflate the domestic economy at the expense of industry (particularly the manufacturing sector) and workers. The so-called "stop-go" cycle was a reflection of liberal limits to the Keynesian welfare state.

Although Britain has been understood as a political economy most similar to American pluralism, Britain has had a long tradition of class politics that became institutionalized into two-party competition between the Conservatives and Labour. British workers were more class-conscious than their American brethren. They rarely considered themselves an interest group competing with other special interests over the access to the policy process. Ties between trade unions and laborist parties were stronger

²¹ Which side of the Atlantic played a leading role in the postwar reconstruction of Western Europe is an ongoing debate among the historians. For the American perspective, see, for example, Michael J. Hogan, *The Marshall Plan: America, Britain, and the Reconstruction of Western Europe* (Cambridge: Cambridge University Press, 1987); for the European perspective, Alan S. Milward, *The Reconstruction of Western*

than any other three countries examined here. The relationship between the French Communists and the CGT was also very close. The difference was that in France the party controlled the unions, whereas in Britain the opposite was the case. Indeed, the Labour party started as a parliamentary arm of the Trades Union Congress (TUC).

Despite the presence of well-organized labor, Britain's corporatism was on a very shaky foundation largely due to the organizational weakness of the business community and the underdevelopment of the regulatory state. The Federation of British Industries (FBI) did not actively engaged in institutionalizing collective bargaining with the trade unions, especially at the national level. The British Employers' Confederation (BEC) also shunned dealing with labor issues other than wage determination. British business leaders considered industrial relations business that government must take care of. In the circumstances collective bargaining was made mostly at the plant, company, or regional level. Consultation in the economic policy process did not function well, since neither the business community nor organized labor was willing to share responsibility for ad hoc industrial policies that were frequently subordinated to the logic of sterling policy.

Following the Labour government during the immediate postwar years, Conservatives sustained rather than revoked the commitment to building a comprehensive welfare state. Although the Tories rolled back some Labour policies like the nationalization of steel industry, they were well aware that economic laissez faire was not an option in intense two-party competition that could not be won without enlisting the support of working-class voters.

Europe, 1945–1951 (Berkeley: University of California Press, 1984). Maier's works are closer to the latter, but more balanced.

In France, postwar settlement was made without an institutionalized participation of organized labor in the process of reconstruction. With the end of the Second World War, the country was drifted into the vortex of Libération politics revolving around the purge of collaborators and nationalizations. Thanks to their struggle in the Résistance period, Communists (PCF) emerged as a predominant political force in the immediate postwar years. As the Cold War began in 1947, Communists were driven out of the government coalition that subsequently became dominated by conservative parties along with the enfeebled Socialists. Although Monnet's planning commission formally included representatives of labor, organized labor's participation in the policy process was curtailed by the "collusion" between planners and select big industrialists. Furthermore, the labor movement was internally divided into three ideologically competing federations: the Communist CGT, the Catholic CFTC, and the Socialist FO.

France might be the most class-conscious nation among the four countries discussed in this study. Such a high level of class consciousness, however, was not organized into peak associations representing capital and labor. The CNPF, the center of organized business, was not in a position to lead its members in response to government policies. Monnet's team, therefore, dealt with individual industrialists, not business community as a whole, in devising the terms and conditions of the plan. Corporatism operated by encompassing organizations was not an option in France. Instead, the policy process was characterized by pluralist competition among a minority of big businesses and a majority of small- and medium-sized corporations that comprised the vast traditional sector along with farmers and shopkeepers. The task assigned to the postwar planners was to promote the modernization of the French economy without destroying the traditional sector. They

managed to do such a demanding job largely due to the strong presence of the national bureaucracy. Conservative parties of the Fourth Republic left the complex details of the economic policymaking to the technocrats of the finance ministry and planning commission as long as the compromise made in early postwar years between different sectors of the French society was maintained.

One structural defect of the French political economy was the exclusion of organized labor from the formal and informal institutions alike. With the PCF being expelled from the scene of national politics, the Socialists (SFIO) was not strong enough to make the voice of labor heard in the policy process dominated by conservatives. At the workplace level, employers made no significant efforts to institutionalize collective bargaining over the issues beyond wage determination. This vacuum was filled with state intervention into labor disputes made on a case-by-case basis. Wage levels and the scope of benefits suggested by the government were accepted by employers, for they preferred administrative to political solutions for industrial conflict. As a result, throughout the 1950s labor's negotiation partner was the government rather than employers. This explains much of why French workers so often resorted to protest as a way of expressing their views.

West Germany might have a political economy most different than the one of its neighbor, France. After the Nazi regime collapsed with the defeat in the war, labor leaders who returned from concentration camps or exile were agreed on two basic principles in creating a postwar labor center: one all-encompassing union and industrial unionism. In 1949, the DGB was established under the leadership of Hans Böckler as an umbrella organization for all workers across the faultlines of occupation, skill, industry,

and political affiliation. Böckler also redefined the relationship between organized labor and the Social Democrats (SPD) in a way that ensured the political independence of the former. The DGB achieved a high level of centralization internally through the 1950s, and the leadership role was assumed by the metalworkers' union (IG Metall). This renewed labor organization could present itself as a reliable and responsible partner for enhancing productivity.

The business community was also well organized by any standards. Although the BDI, the peak association of industrialists, was conservative in its attitude toward organized labor, the BDA, the employers' federation, recognized the monopolizing status of the DGB and the IG Metall in particular in collective bargaining at the national and plant level. The Christian Democratic government followed the postwar trend of welfare extension by sticking to its Ahlen program. But behind these remarkable achievements lay the logic of reconciling liberal with illiberal elements within German capitalism, which was similar to what the French planners committed themselves to. Since the majority of German big business was involved with the Nazi regime, the first priority for the American occupying authorities and West German reformers was decartelization of industry. The fiery debate over the issue continued until 1957 when Erhard finally got the Cartel Law passed the Bundestag. However, the final outcome was a watered-down version of the original plan; and it reflected the deep embeddedness of organized capitalism in Germany.

MAINTENANCE CONDITIONS OF EMBEDDED LIBERALISM
SINCE THE 1980S

In his recent book, Robert Gilpin has dismissed the popular “retreat of the state” thesis by arguing that any contraction of the interventionist state in advanced industrial countries “is due more to developments within national societies and in the international political environment than to the effects of economic globalization.”²² But at the same time Gilpin as a neorealist emphasizes the end of the Cold War as a structural variable that contributed to weakening the role of the state in safeguarding the welfare of its citizens and adjusting the domestic economy as a whole. As with explaining the establishment of the postwar regime, I delimit the impact of systemic change to a contextual variable in accounting for institutional changes *in* embedded liberalism.

In the United States, the New Deal-Fair Deal growth coalition between centrist politicians of two major parties and liberal faction of the business community began to take a right turn with the 1981 Republicans’ return to the White House. Internationally oriented businesses, especially financial interests, switched their political partner from the Democrats to the refurbished GOP, which successfully escaped from the shackles of the narrow, protectionist “Goldwater coalition.” Business leaders supported the politics of retrenchment targeted against federal welfare spending, while at the same time pushing for military buildup that would help maintain the existing level of industrial production and even boost job creation. Because military Keynesianism had the effect of weakening the dollar, such fiscal policy changes were complemented with aggressive use of

²² *The Challenge of Global Capitalism: The World Economy in the 21st Century* (Princeton: Princeton University Press, 2000), p. 318.

monetary policy tools such as interest rates. Massive capital inflows from Western Europe and Japan ensued, and this led to epidemic capital decontrol across the liberal community.²³

The Reagan years were also hard times for organized labor. Antilabor legislations were made to tilt the balance of power toward management within the National Labor Relations Board (NLRB). Under the Reagan NLRB, the proportion of decisions in accord with employers' position increased from 35 percent in 1975–1976 to 66 percent in 1984–1985. More directly, many unions lost their certified status within the board. The reach of collective bargaining was sharply reduced in favor of more management privileges in the organization of production. Deflationary policies increased the rate of unemployment, which in turn further weakened the bargaining power of unions. As a result, for the first time since the Wagner Act of 1935 unions experienced a massive loss of members. De-unionization continued into the early 1990s when union density and coverage stabilized at 15–17 percent and 18–22 percent, respectively.²⁴

This overall right turn during Reagan's first term, however, met with complaints from internationalist, capital-intensive sectors of the business community that the administration's Second Cold War strategy was pursued at the expense of the sectors' European interests. In fact, the Reagan administration failed to make progress in enlarging the zone of free trade, while giving more protection to its labor-intensive

²³ Cox and Skidmore-Hess, *U.S. Politics and the Global Economy*, pp. 161, 166, 167.

²⁴ Ibid., p. 171; Thomas Ferguson and Joel Rogers, *Right Turn: The Decline of the Democrats and the Future of American Politics* (New York: Hill & Wang, 1986), p. 136; Michael Goldfield, *The Decline of Organized Labor in the United States* (Chicago: University of Chicago Press, 1987), p. 6; Roy J. Adams, *Industrial Relations under Liberal Democracy: North America in Comparative Perspective* (Columbia: University of South Carolina Press, 1995), p. 78.

industry partners. This cleavage within the Reagan coalition allowed the Democrats to refashion their political strategy in a direction that mixes multilateral trading system (coupled with full-scale financial liberalization) abroad with neoliberal reforms of the federal government and welfare state. The Bush administration's failure to deliver its key campaign promise, "no new taxes," encouraged the Democrats to demonstrate their willingness and ability to govern the nation with a new package of internationally oriented, domestically more market-driven solutions. Much of the 1990s under the Clinton presidency seemed to prove the viability of the neoliberal remedy against the unbalanced budget, chronic job loss, and decaying welfare system, in no small measure because of the uninterrupted economic boom for the decade.²⁵

Britain for eighteen years of Conservative rule (1979–1997) transformed its industrial relations system farthest away from the framework of the postwar compromise among the four countries. Trade unions both sharply and steadily lost their members; economic recessions and rising unemployment reduced unions' bargaining power; collective bargaining declined, while the so-called "human resource management" (HRM) grew as a mode of regulating labor. A series of antilabor legislations were made to restrict the closed shop, picketing, and secondary strikes; to make mandatory seven days' notice before going on strike; to revoke the union immunities from damages caused by industrial action. Collective bargaining in Britain was already out of line with that in other European countries where multi-employer bargaining had long been the norm. While

²⁵ Cox and Skidmore-Hess, *U.S. Politics and the Global Economy*, p. 207; David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector* (Reading, Mass.: Addison-Wesley, 1992), which was strongly recommended by President Clinton, epitomizes what Clinton and the "new Democrats" claimed they stood for.

Britain had more elements of corporatism than the United States, the two countries were similar in the predominance of single-employer bargaining at the company level. By 1990 multi-employer bargaining covered only 10 percent.²⁶

Despite these aggressive antilabor drives, the Conservative governments failed to generate economic growth and create decent jobs. The greatest beneficiary from the Thatcher revolution was the City of London that further internationalized its operation and thereby became “the only financial centre on the planet that offers free trade in all types of international securities and banking markets to both commercial and investment banks.” In contrast, the foundation of the manufacturing sectors further weakened, which directly affected the material welfare and employment security of British workers.²⁷ Conservatives’ failure to strike a balance between industry and finance gave Tony Blair’s New Labour a chance to garner the support of disheartened business community as well as job-seeking voters. Blair’s notion of “stakeholder” society meant in actuality a close copy of “workfare state” programs that were introduced by the Reagan administration. And more importantly the New Labour began to attenuate its historic ties to the TUC in favor of more catch-all policies.²⁸

²⁶ Paul Edwards et al., “Great Britain: From Partial Collectivism to Neo-liberalism to Where?” in *Changing Industrial Relations in Europe*, ed. Anthony Ferner and Richard Hyman, 2nd ed. (Oxford: Blackwell, 1998), pp. 1, 13–15, 18, 20; Jelle Visser and Joris Van Ruysseveldt, “From Pluralism to ... Where? Industrial Relations in Great Britain,” in *Industrial Relations in Europe: Traditions and Transitions*, ed. Ruysseveldt and Visser (London: Sage, 1996), pp. 53–54.

²⁷ Martin Rhodes, “Restructuring the British Welfare State: Between Domestic Constraints and Global Imperatives,” in *Welfare and Work in the Open Economy*, vol. 2: *Diverse Responses to Common Challenges*, ed. Fritz W. Scharpf and Vivien A. Schmidt (Oxford: Oxford University Press, 2000), pp. 19–68; Andrew Baker, “Globalization and the British ‘Residual State’,” in *Political Economy and the Changing Global Order*, ed. Richard Stubbs and Geoffrey R. D. Underhill, 2nd ed. (Toronto: Oxford University Press, 2000), p. 364.

²⁸ Joel Krieger, *British Politics in the Global Age: Can Social Democracy Survive?* (Oxford: Oxford University Press, 1999), chap. 2; Desmond King, *Actively Seeking Work? The Politics of Unemployment*

In France, the 1980s and 1990s marked a turning point in the country's government-business relations. Beginning in 1983 when François Mitterand's Socialist government reversed its policy course from nationalization to privatization and deregulation, the economic policy process came to approach the pattern of two-way interaction rather than one-way *dirigisme*. Instead of forging industrial policy, the French state began to direct more resources to the area of social policy. Growing concerns with the alleged degradation of employment security and living standard in the context of "one Europe" was behind the strikes during the fall and winter of 1995. Since the Fourth Republic the French government has maintained comparatively generous welfare programs mainly because they were the best means to prevent such confrontational industrial relations from spilling over into the political system.²⁹

Despite the Socialist governments' efforts to *normalize* (that is, institutionalize) industrial relations by bringing both an enlightened faction of business community and a moderate faction of organized labor, the CFDT, in to the national-level bargaining table, business preference for company-based bargaining and internal division of the French labor movement remain the obstacles to negotiated industrial peace. Unlike in the Fourth Republic, state intervention has filled the institutional vacuum of industrial relations, but it has also evolved in pair with intermittent protests.³⁰ As a result, France throughout the

and Welfare Policy in the United States and Great Britain (Chicago: University of Chicago Press, 1995), chap. 5.

²⁹ Vivien A. Schmidt, *From State to Market? The Transformation of French Business and Government* (New York: Cambridge University Press, 1996); Johah D. Levy, 'France: Directing Adjustment?' in *Diverse Responses to Common Challenges*, ed. Scharpf and Schmidt, p. 309; Dani Rodrik, *Has Globalization Gone Too Far?* (Washington, D.C.: Institute for International Economics, 1997), pp. 41–43.

³⁰ Joris Van Ruysseveldt and Jelle Visser, "Contestation and State Intervention Forever? Industrial Relations in France," in *Industrial Relations in Europe*, ed. Ruysseveldt and Visser, pp. 119–22.

1990s still remained one of the least Americanized political economies within the liberal community.

Germany may be a partially exceptional case that shows a greater degree of continuity in both labor market and political regimes. Unionization during the 1980s decreased by 4.5 percentage points, while the figures for France and Britain were 7.2 and 8.2, respectively. The United States marked the same rate of de-unionization as Germany for the period, but the country already began to see the decline of organized labor back in the 1970s. The German “dual system” of collective bargaining at the national level and codetermination at the plant level remains stable in the face of growing business resistance to those institutional arrangements. More important, bargaining coverage in the early 1990s remained the highest (90 percent) among the four countries considered here. “Pattern bargaining” led by the standard-bearer IG Metall continues to be accepted by large employers as the primary mode of regulating labor, though small- and medium-sized corporations have increasingly doubted the usefulness of the traditional bargaining institutions. Smaller employers, however, were too weakly organized to repeal the past practice.³¹

The CDU/CSU/FDP coalition government, like conservatives in other countries, pushed for a more liberalized and deregulated economy but not to the point of drastically altering the framework of corporatist governance. By comparison with Britain, labor

³¹ Bruce Western, *Between Class and Market: Postwar Unionization in the Capitalist Democracies* (Princeton: Princeton University Press, 1997), p. 24; Adams, *Industrial Relations under Liberal Democracy*, pp. 78, 146–48; Kathleen A. Thelen, *Union of Parts: Labor Politics in Postwar Germany* (Ithaca: Cornell University Press, 1991), chap. 1; idem, “Why German Employers Cannot Bring Themselves to Dismantle the German Model,” in *Unions, Employers, and Central Banks: Macroeconomic Coordination and Institutional Change in Social Market Economies*, ed. Torben Iversen, Jonas Pontusson, and David Soskice (New York: Cambridge University Press, 2000), p. 141.

legislation in Germany during the past two decades was limited in their union-weakening effects. This can be partly explained by the fact that the ruling Christian Democrats, unlike conservative parties in other countries, were closely allied to the representatives of the DGB. Labor officials within the right-of-center party “has put a brake on the deregulation of labour law.” What Peter Katzenstein called the German mixture of “decentralized state” with “centralized society” also renders highly difficult any form of radical alteration in the basic framework of the political economy.³²

From a comparative overview of these four countries’ recent experiences one may draw three theoretical points. First, economic globalization inflicts greater damage on the domestic institutions for embedded liberalism where corporatism is mismanaged than where pluralism is modified with more or less social protection. Britain during the Thatcher-Major years saw the most radical form of welfare state retrenchment and antilabor legislations. While the British conservative revolution may be attributed to the policy style of “conviction politicians” like Thatcher,³³ it is more rewarding to view the British experience as an outcome of weak corporatism and conflictual party politics. In unstable corporatist settings, employers and labor often disagree with policymakers over the amount of concession to make to each other because politicians are split between the accumulation and legitimation functions. Employers and labor threaten the government with the exit option out of tripartite consultation if the government is considered leaning

³² Jelle Visser and Joris Van Ruysseveldt, “Robust Corporatism, Still? Industrial Relations in Germany,” in *Industrial Relations in Europe*, ed. Ruysseveldt and Visser, pp. 156–57; Katzenstein, *Policy and Politics in West Germany: The Growth of a Semi-Sovereign State* (Philadelphia: Temple University Press, 1987), p. 367.

³³ Patricia Lee Sykes, *Presidents and Prime Ministers: Conviction Politics in the Anglo-American Tradition* (Lawrence: University Press of Kansas, 2000), especially chap. 5.

toward either side of industry. In short, corporatist bargaining is vulnerable to the balance of power between capital and labor.

Second, electoral competition combined with “policy emulation” between major political parties to produce economic and social policy outcomes much closer to the median voter than arguments on convergence would lead us to believe. Opposition parties as diverse as the U.S. Democrats, the British Labour, the French Socialists, and the German Social Democrats came to adopt more neoliberal economic policies in order to make themselves more attractive politically. There were also “lock-in” effects that previous conservative governments created. Leftist or left-of-center governments that came next had to formulate and implement their inequality-redressing policies within the limits of more liberalized markets, domestic and foreign alike.

Third, despite the predictions of convergence made by various globalization arguments two decades of neoliberal experiments across the liberal community produced as much national divergence in policy outcomes. The pressure of the emerging global economy was filtered through the domestic institutions that had regulated the labor market and political-party competition since the 1950s. For economic and/or political reasons, of course, some governments sometimes went for significant *institutional* changes that were expected to alter the framework of economic and social policy process. Still others were more cautious in changing the terms and conditions of existing welfare state and economic policymaking. There are “social limits to globalization,” and the degree varies from country to country. While those variations may be understood as reflecting the difference between Anglo-American liberalism versus European collectivism, we should

be able to explain change and continuity in embedded liberalism in more non-exceptionalist terms. The next section is such an attempt.

DEMOCRATIC SOURCES OF REEMBEDDED LIBERALISM:
INSTITUTIONAL INERTIA AND CATCH-ALL PARTY POLITICS

A central question revolving around the relationship between democratic politics and the globalizing economy is: “What is the point of democratic elections and processes if governments can no longer regulate the economy within their own borders?”³⁴ In this section I argue that democratic institutions—inside and outside electoral arena—retain their influence on the restructuring of the economy, both domestic and foreign; thus have the effect of pressuring political and economic elites to devise compensatory measures for those adversely affected by neoliberal policies. During the formative period of embedded liberalism such a democratic pressure was exerted on policymakers through voluntary (as opposed to institutionally enforced) compact agreed to among ideologically moderate (or pragmatic) politicians and business leaders. And during the period “trade unions in the industrialized countries reached organizational maturity as they became less social movements of protest against degradation and injustice of workplace life and more permanent and legitimate institutions in the ‘age of the common man’ allied to center-left democratic parties.”³⁵ In a sense, when social purpose of reconciling domestic stability with international liberalization prevails among policymakers and cardinal social groups

³⁴ Michael E. Gordon and Lowell Turner, “Going Global,” in *Transnational Cooperation among Labor Unions*, ed. Gordon and Turner (Ithaca, N.Y.: ILR Press, 2000), p. 4.

³⁵ Robert Taylor cited in Gordon and Turner, “Going Global,” p. 5.

the role of democratic institutions in safeguarding the losers' interests tends to be less salient.

As Chris Howell has reasoned, "ties between party and unions are only possible when the former has an industrial relations project which identifies a distinct, and positive, role for organized labor in the regulation of economic and social relations. Absent such a conception of the political economy of organized labor, the superstructure of cultural, personal and institutional ties between party and unions is increasingly anachronistic and vulnerable to erosion." This reasoning, however, seems to me a structural argument. The relaxed connection between political parties (especially left-wing, laborist ones) and organized labor reflects the secular trend toward "catch-all parties" that has characterized the patterns of party competition in most of industrial democracies since the end of World War II.³⁶

The development of catch-all party politics was accompanied by the extension of the welfare state since the end of World War II. During the mid- to late 1940s the establishment of more generous social services was motivated in large part by the political need to compensate organized labor for its wartime cooperation. The experience of total war allowed governments to intervene deeply in the economy; and the role of the state as "manager of prosperity" became a pivotal institutional fixture of the postwar

³⁶ Howell, "Social Democratic Parties and Trade Unions: A Rough Framework for Analysis," Paper prepared for the conference on "The Left in a Post-It World," Carleton University, Ottawa, March 10–11, 2000, p. 4; Otto Kirchheimer, "The Transformation of the Western European Party Systems," in *Political Parties and Political Development*, ed. Joseph LaPalombara and Myron Weiner (Princeton: Princeton University Press, 1966), pp. 177–200.

settlement. In other words, warfare state begot welfare state.³⁷ However, for the welfare state to be accepted by the larger population that was taxpayers, its coverage had to be extended beyond organized labor.³⁸ The economic and political consequences of the comprehensive welfare state are much more complicated than the eye-catching debate over retrenchment versus expansion of welfare state would lead us to believe. In terms of economic resources, the welfare states across the liberal community have been subject to increasing fiscal strain in large part because middle-class recipients have rallied to neoconservative call for “more tax cuts or at least no more new taxes.” On the electoral market, parties in office have to compete with oppositions to get the credit for protecting existing recipients while not getting the blame for budgetary drain on the welfare programs. Those demographic and electoral factors combine to prolong the welfare state’s tenure of life well beyond the deadline set by the seemingly irreversible trend of globalization.

This interpretation that catch-all party politics resulted in similar policy outcomes may seem incompatible with Daniel Verdier’s observation that since the late 1970s the economic policy process, domestic and foreign alike, in Britain, France, and the United States converged toward the pattern of party politics. It is partly because Verdier meant by party politics a type of policy process as contrasted with two other types: pressure and executive politics.³⁹ In the latter two types of policy process the role of parties is

³⁷ For the warfare-welfare state nexus, see Jytte Klausen, *War and Welfare: Europe and the United States, 1945 to the Present* (New York: St. Martin’s Press, 1998); and Bartholomew H. Sparrow, *From the Outside In: World War II and the American State* (Princeton: Princeton University Press, 1996).

³⁸ Peter Baldwin, *The Politics of Social Solidarity: Class Bases of the European Welfare State, 1875–1975* (Cambridge: Cambridge University Press, 1990).

³⁹ *Democracy and International Trade*, pp. 243–44; for the typology of the policy process, see chap. 3.

diminished, if not bypassed, while more direct bargaining between policymakers and societal interests is a major input of the process. Embedded liberalism of the 1950s and 1960s was based on the domestic politics of consensus that was molded through consultative (with varying degrees of corporatism) decisionmaking bodies. As those bodies became unattractive for capital and/or labor since the 1970s, parties returned to the center of the economic policy process that in turn became more conflictual.

When the case of (West and later united) Germany is considered along with those countries, I would add, party politics in advanced democratic settings have approached the pattern of two-party competition regardless of effective number of parties in each country. One result of that is welfare state “gridlock” rather than retrenchment.

During the 1980s and 1990s much of the study of elections and parties in industrial democracies was devoted to describing and explaining electoral dealignment and the defrosting of the modern party systems through the rise of postmaterialist values, new social movements, and single-issue parties.⁴⁰ A common theme running through the literature was the irrelevance, if not end, of “class politics,” which was in turn interpreted as closely related to the declining fortune of social democracy. Put differently, the alleged phenomena were understood as indicating the decay of the postwar political structures that had been represented by two major parties or coalitions of parties located on either direction of the left-right continuum.

⁴⁰ Russell J. Dalton, Scott C. Flanagan, and Paul Allen Beck, eds. *Electoral Change in Advanced Industrial Democracies: Realignment or Dealignment?* (Princeton: Princeton University Press, 1984); Ronald Inglehart, *Culture Shift in Advanced Industrial Society* (Princeton: Princeton University Press, 1990); Russell J. Dalton and Manfred Kuechler, eds. *Challenging the Political Order: New Social and Political Movements in Western Democracies* (New York: Oxford University Press, 1990).

How accurate is this interpretation? Even in some European countries where strong “left-libertarian” currents were found, traditional leftist parties have in recent years managed to “incorporate new postmaterial issues (and the rising postindustrial electorates) without any apparent loss of conventional class support.”⁴¹ In the two “Anglo-Saxon” liberal democracies, Britain and the United States, the structure of two-party politics remains intact; in France and Germany electoral competition and government formation are still dominated by two major parties or coalitions of parties. This is not to agree with the models of partisan government economic control, according to which parties of the left and right have distinct economic policy programs and when in office produce different (as expected) policy outcomes; and finally the pattern tightly interlocked with electoral cycle rarely change.⁴²

Interestingly enough, the logic of catch-all party politics also permeated the arena of labor politics. A solution may be found in various national efforts at merger between unions with “dissimilar memberships.” For example, in the United States, “the Leather Workers [were merged] into the Office and Professional Employees, the Upholsterers into the Steelworkers, the Tile, Marble, and Granite Workers into the Carpenters, the Furniture Workers into the Electrical Workers, and the Writers into the Auto Workers.” More trade unions in advanced industrial countries came to recognize the importance of extending their organizational reach into the ever-increasing strata of workers that cannot be easily incorporated under the one roof of traditional manual working-class

⁴¹ Esping-Andersen, “Politics without Class?” p. 309.

⁴² Douglas A. Hibbs, Jr., “Political Parties and Macroeconomic Policy,” *American Political Science Review* 71 (1977): 1467–87; Francis G. Castles, ed. *The Impact of Parties: Politics and Policies in Democratic Capitalist States* (Beverly Hills, Calif.: Sage, 1982).

organizations. Considering these new developments, Gøsta Esping-Andersen could conclude: "Trade unions remain the principal mechanism for economic interest intermediation; they have in many countries been extraordinarily successful in organizing also the new postindustrial strata. Traditional patterns of class politics are equally persistent."⁴³

Contrary to the already conventionalized wisdom of the globalization thesis, national governments are far from a rubber stamp in the process of facilitating more economic openness. International trade is still among the central policy agenda of major industrial nations. Growing importance of "tradable services" have rendered the trade issue politically more delicate and increased the need for international policy coordination as seen in the making of General Agreement on Trade in Services (GATS). More interesting is the expanding role of the state in the area of global finance. As Michael Moran pointed out, when capital controls were a defining feature of embedded liberalism the state's role was limited to administrative supervision. Between the late 1970s and early 1990s advanced capitalist countries competitively disengaged from direct controls on short-term capital movements; and consequently much more diversified financial activities took place. Concerned with structural instability of the world money market, financial interests pressured national governments to make new rules and procedures for regulating such activities. Decontrol made capital entry easier. But the operation of capital after the entry point is still affected by the degree of deregulation.⁴⁴

⁴³ Gary N. Chaison, *Union Mergers in Hard Times: The View from Five Countries* (Ithaca, N.Y.: ILR Press, 1996), p. 28; Esping-Andersen, "Politics without Class," p. 315.

⁴⁴ Ruggie, "At Home Abroad, Abroad at Home," pp. 513–15; Moran, "The State and the Financial Services Revolution: A Comparative Analysis," *West European Politics* 17 (1994): 176; John B. Goodman

REEMBEDDED LIBERALISM AS AN INTERNATIONAL ECONOMIC SUBSYSTEM

As an international economic subsystem, reembedded liberalism requires more frequent and genuine international policy coordination than ever largely because globalization led to growing disagreement among the participants over the contents and purpose of the world political economy. Ethan Kapstein pointed out that “states have responded to financial globalization through the development of *international cooperation based on home country control*.” Here the focus is on “home country control” by which Kapstein meant individual states’ responsibility for institutions and actors falling within their jurisdiction. This kind of international cooperation is bound to be a “two-level game” in which national governments should play with domestic actors as well as with each other.⁴⁵

Despite his neoliberal policy drive since 1995, French President Jacques Chirac was adamant when declaring, “France intends to remain France,” in response to growing pressures for Americanization of the domestic political economy. As a mass politician Chirac could not ignore the fact that the 1995 strikes were motivated by the slogan, “The French do not want to live like Anglo-Saxons.”⁴⁶ But at the same time Chirac’s emphasis on the French way to liberalization reflected a more European-wide perception that recent

and Louis W. Pauly, “The Obsolescence of Capital Controls? Economic Management in an Age of Global Markets,” *World Politics* 46 (1993): 50–82.

⁴⁵ *Governing the Global Economy*, p. 2 (emphasis in original).

⁴⁶ Quotations from Mittelman, *Globalization Syndrome*, p. 243; Rodrik, *Has Globalization Gone Too Far*, p. 44.

waves of globalization have been American-instigated and those were eroding the political and social foundations of Western European welfare states.

On the other hand, there is another dimension to the divergence of policy paradigm within the liberal community. Backed by a strong record of economic success during the 1990s, the Clinton administration pressured Western European (and Japanese) governments to take more expansionary policies for boosting up “global economic growth” in the wake of the East Asian economic crisis. Western European central bankers responded negatively, and their governments instead called for an international regulation of short-term financial transactions. Furthermore, Western European governments viewed America’s success story—low unemployment, increased national average income, dynamic competitive advantage enjoyed by leading companies—as based on mass production of “inferior jobs.” Conversely, Western European political economies have been too strongly tied to the logic of fiscal soundness for beating inflation since the late 1970s. Maintaining high levels of employment through expansionary economic policies lost ground. Nor were most continental European governments willing to engage in retrenching the welfare state. As a consequence, they end up generating inequality in job opportunity: “good jobs for the few.” Germany as engine of the European economy has been an exemplar of “jobless growth.”⁴⁷

As Arthur Stein tellingly reasoned: “When a hegemon bears the burden, the arrangement can be tacit, but a more reciprocal arrangement between relatively more

⁴⁷ Gilpin, *Challenge of Global Capitalism*, pp. 327, 329; Iversen and Wren, “Equality, Employment, and Budgetary Restraint”; Esping-Andersen, “Politics without Class,” p. 300.

equal powers requires explicit collaboration.”⁴⁸ Embedded liberalism of the 1950s could function with efficacy in part because it was lucky enough to have such contextual variables as the Cold War that had the effect of simplifying the terms of international policy coordination. In the absence of the systemic security threat, the maintenance of the liberal subsystem “requir[es] more precise and balanced *quids-pro-quos* in international economic relations.” The United States rebuilt a liberal economic subsystem by applying the principle of multilateralism instead of taking unilateral actions as Britain had done in the 1840s. Multilateralism of the 1940s and 1950s, however, was closer to a projection of the New Deal regulatory state onto the world than to a set of rules of reconciling, if not harmonizing, divergent national policy outcomes.⁴⁹ At the time Western European partners were much more dependent on the systemic power of the United States for the successful conduct of their reconstruction schemes. Not only did they need a massive amount of U.S. loans but also, more important, security guarantees from the threat of the Communist bloc. Then power played a more crucial role than social purpose in creating a liberal community with common policy direction toward welfare state and economic openness.⁵⁰

⁴⁸ “The Hegemon’s Dilemma: Great Britain, the United States, and the International Economic Order,” *International Organization* 38 (1984): 386.

⁴⁹ Ruggie, “At Home Abroad, Abroad At Home,” p. 526 (quotation); Burley, “Regulating the World.”

⁵⁰ This does not suggest the possibility of a “working” liberal subsystem in which social purpose prevails over power. The element of power is a baseline on which liberal economic order of any contents is built; it cannot be replaced with common social purpose. In this regard, I follow the neorealist argument on the primacy of power. For a recent reemphasis on the element of power in cooperation under anarchy, see Lloyd Gruber, *Ruling the World: Power Politics and the Rise of Supranational Institutions* (Princeton: Princeton University Press, 2000).

The current liberal community shows a more dispersed pattern of economic power distribution. This change *within* the liberal subsystem might encourage a Japanese government official to anticipate a *subsystemic* change by saying, “We had 100 years of Pax Britannica and 50 years of Pax Americana. What comes next? Pax Consortia!” Rather than directly address such a disguised question of “power cycles” I suggest that any discussion of leadership include not just an evaluation of power resources but also an exploration into the nature of social purpose embodied in hegemonic policies. It is hard to deny that “[t]he world of the 1940s contained far more rival systems, ideologies, and interests than the world of the 1990s.” Under the relatively unfavorable circumstances the United States could assume the leadership role by maintaining a delicate balance of power and social purpose. Embedded liberalism under American hegemony was “an arrangement based on generalized organizing principles [that was] more elastic than one based on particularistic interests and situational exigencies.”⁵¹ In short, economic (and, of course, military) power alone cannot construct a new liberal subsystem unless it is complemented with social purpose acceptable to participating countries. Cooperation under anarchy is a function of domestic interests as well as state interests.⁵²

With the end of the Cold War, the liberal international economy seemed to break through the “social limits to growth.” Neoliberal market-driven policies supported by technological advance are touted as a motive power of another sustained economic

⁵¹ Quotations from Mark R. Brawley, *Liberal Leadership: Great Powers and Their Challengers in Peace and War* (Ithaca: Cornell University Press, 1993), p. 194; G. John Ikenberry, “Liberal Hegemony and the Future of American Postwar Order,” in *International Order and the Future of World Politics*, ed. T. V. Paul and John A. Hall (Cambridge: Cambridge University Press, 1999), p. 140; John Gerard Ruggie, “Multilateralism: The Anatomy of an Institution,” *International Organization* 46 (1992).

⁵² Peter Alexis Gourevitch, “Squaring the Circle: The Domestic Sources of International Cooperation,” *International Organization* 50 (1996): 371–72.

growth, and expected to provide a more sound foundation for economic safety. However, this optimism is being eroded. Among the advanced industrial countries, class inequality and job insecurity have steadily increased since the policy right turn in the late 1970s. Economic losers from the increasing openness across national markets have rallied to populist forces like the National Front in France and the Third-party candidates in the United States. Among the developing countries, the situation is worse and worsening. Forced by the IMF, inspired by the success story of South Korea and Chile, many developing countries implemented neoliberal policy measures without reforming their domestic political and economic structure. Disillusioned by the East Asian crisis of 1997 and subsequent financial instability, neoliberal authoritarian regimes are threatened with a radical regime change as in Peru.

This recent experience in the developing as well as developed world demonstrates how difficult it is to relax, if not solve, the trade-off between national welfare and international liberalization. Embedded liberalism, albeit short in its heyday, showed an option that would allow national governments to adjust their economies to the liberal subsystem by accommodating societal preferences and interests within political arena. The need for a recharged embedded liberalism is strongly felt among the developing countries, especially where democratic transition has recently occurred and thus societal demands are proliferating. The same can be said of the post-Communist countries where state socialism provided a high level of economic security, and many citizens doubt the face value of civil and political freedom without corresponding purchasing power in their hands.

Although I have stressed the limited coverage of embedded liberalism by calling it a “club of like-minded states,” I wish to add that reembedded liberalism would have to extend its institutional arrangements for mutual understanding down to the “non-members of the South.” Unlike the relationship between advanced industrial democracies, the North-South relations have more hurdles to overcome due to much greater differences in social purpose.⁵³ Uncritical adherence to doing business as usual does not pay in settings that are economically shaky and politically unstable. Four decades ago, Peter Kenen suggested a more active use of U.S. foreign aid along with continued trade liberalization as the most efficient way to consolidate the liberal world economy. Kenen pointed to the fact that “the Soviet Union and its satellites ... seek to supplant us as purveyors of capital and as buyers of raw materials in the underdeveloped areas” as a reason why such an active (and benign) involvement was required. Now that the East-West competition over the Third World is over, major industrial countries of North America and Western Europe (plus Japan) stand in a more favorable position as creditors and buyers. Although one would hardly disagree with the economist saying, “if we are to live in a community of nations, we must work with our allies to make all its members healthy,”⁵⁴ the past record of North-South economic relations indicates the importance of matching social purposes.

Club members must have a balanced understanding of non-members’ domestic conditions before prescribing a bitter pill such as the IMF conditionality if they are to

⁵³ For an analysis of the North-South economic relations, see Stephen D. Krasner, *Structural Conflict: The Third World against Global Liberalism* (Berkeley: University of California Press, 1985).

⁵⁴ *Giant among Nations: Problems in United States Foreign Economic Policy* (Chicago: Rand McNally & Co., 1963), pp. 2, 223.

prevent recurring protests and riots against global capitalism. As we can see in the recent developments in Indonesia and Argentina, national governments are in no small measure responsible for economic mismanagement (often coupled with political corruption) and the subsequent dislocations. But pointing to the domestic policy failure is not a solution simply because it is strongly tied to the institutional inadequacy of global liberalism for coping with the existing and widening cleavages between different social purposes. Trilateralism (as a real-world name for multilateralism) could do many things other than taking advantage of oligopoly in the global capital markets with any viable alternatives being non-existent yet. While not denying that a *realistic* “leadership abroad begins at home,”⁵⁵ it must be noted at the same time that the zone of prosperity is not guaranteed a safe quarantine from the zone of misery. That is why liberal leadership at its reembedding phase should be more sophisticated and nuanced.

⁵⁵ Robert L. Paarlberg, *Leadership Abroad Begins at Home: U.S. Foreign Economic Policy after the Cold War* (Washington, D.C.: The Brookings Institutions, 1995).

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