

The State, Power and the Industrial Revolution, 1750–1914

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The original editor's note from H. M. Wachtel, editor of *The Union for Radical Political Economics Occasional Paper No. 4*, Spring 1971 (in which the following essay was published):

“Several generations of economists have been educated without studying history, rendering economics thoroughly ahistorical and inhibiting political economists from easily introducing historical insights into their work. This paper is designed as an introduction to economic history and will be especially useful for individuals without substantial knowledge of economic history. Its purpose is to invite further study of questions raised rather than to settle those questions for all time. (April 1971).”

Introduction

All agree that what the state has or has not done has been of great importance in the economic development of modern societies. Beyond that simple statement, disagreement begins and soon becomes sharp. When has the state's role been beneficial and when harmful? When vital and when of small consequence? How does one measure the state's importance, and within what temporal and functional framework? How does the state relate to private groups, at any time and over time? Asking these questions, or others as yet unasked, places an examination of the role of the state in a context of ideological and theoretical dispute, and it raises still another question: to what degree and in what ways does the relationship of the state to economic development manifest and in what ways conceal the changing structure and functions of power in modern societies?

The state has been much studied by economic historians, but the role of power — as it informs and is informed by the relationships between public and private institutions — remains a vast *terra incognita*. To explore and map out the ground that comprehends power, economic change, and the state is slippery work, and only a few points of vantage will be secured by those who attempt it; yet, if we are to enrich our knowledge of past development sufficiently to enhance our future, the attempt must be made.

The treatment of the state in economic history has been overly dominated by an ordinarily unstated and important tension — between those who, for their own societies, thought it desirable to minimize the role of the state, and those who thought it essential to broaden the state's powers. The state's role in the industrialization process of the advanced countries has been defined by easily discernible, hotly debated, and specific policies: statutes, regulations, fiscal, monetary, and commercial policies, subsidies, and the like. Such specific policies must of course — and may easily — be noted, and their origins and consequences must be understood. However, a full understanding of the role of the state requires that we also comprehend what the state forced or allowed to be undone, and what the state was responsible for that did not appear in specific actions; that did not, perhaps, “appear” at all.

The latter point, central to what follows, can be illustrated if we pause to examine its neglect in a highly respected study in economic history, and one precisely concerned with the role of the state. W. O. Henderson, who has written much and carefully of both Britain and Germany, declares of Britain that

in the age of *laissez-faire* the role of government in economic affairs was largely a passive one... The social evils in town and countryside that followed in the wake of the Industrial Revolution might have been alleviated at an earlier date if the governing classes had been better informed about the great changes that were taking place in the mines and factories... The government was inactive because it saw no good reason why it should do anything.¹

Economic liberalism, or *laissez-faire*, was more closely approximated in nineteenth-century Britain than elsewhere. But its considerable triumph was achieved despite considerable opposition before and during its period of mastery — opposition that came not merely from Tories, Methodists, the unwashed

and their explicit champions, but as well from those who are normally seen as having contributed to and been part of the victory. Most noteworthy among the latter are Jeremy Bentham and John Stuart Mill, both enshrined in the gallery of liberalism's heroes, but both of whom sought something quite different from what Liberal England became. Furthermore, the *laissez-faire* state, far from being "inactive," was able and required to put down and away the traditional social control institutions to which millions of Englishmen were accustomed, which meant that the "weak" state had to be very powerful. The struggle involved in all this was fought in Parliament, in the streets, and in many areas in between, and its course was as much a part of the revolutionary aspects of the Industrial Revolution as were its economic and technological advances.

What has been said here of Britain, may and must be said of other societies as well. Our tendency to view particular periods of history as homogeneous and fore-ordained overlooks the clear fact that all such developments have been accompanied by conflict and debate, and that the upshot is hardly likely to have seemed unavoidable to the historical participants. One unfortunate by-product of the simple view of change is that the participants in the struggle are transformed by subsequent historians. Thus, Bentham and Mill have come down to us as champions of economic liberalism; indeed, if we may take Adam Smith as the architect of economic liberalism, Bentham has been seen as its prime contractor, and J. S. Mill (until his later years) as its ideologue.

As Brebner has shown,² however, Bentham was collectivist from his first writings (*Fragment on Government*, 1776); and J. S. Mill was moving toward socialism in the years of Britain's "purest" *laissez-faire*. What is to the point here is not a recitation of the facts on Bentham and Mill, but that their views have usually been interpreted as being in accord with, when they were in fact opposed to, economic individualism. This tells us no little about how history is written, and about how power affects not only society, but subtly transforms the perspectives of those who write about society and its principal figures.

J. S. Mill wrote (in his *Autobiography*) that "government is always in the hands, or passing into the hands of whatever is the strongest power in society, and ... what this power is, does not depend on institutions, but institutions on it..." The institutions of society reward and restrict, enable and obstruct, and what they come to be reflects not the reality of society, but that version of reality desired by those who are best able to control it — at least for a while. Thus, in *laissez-faire* England, those who "saw no good reason why the government should do anything," we may assume, had a disproportionate influence over what state policy should and should not be. In mid-nineteenth century Britain, this meant the removal of obstructions to trade, the weakening of landed power over social policy, and among other things, the placing of constraints on labor and the removal of constraints on labor markets. As we know in our own day, the very apprehension and definition of social evils, and whether or not such evils will be increased or mitigated, is determined not so much by their existence, as by what dominant institutions and attitudes bring to visibility. All this seems true, but it leaves unanswered the question as to how power is gained, held, and lost, and how all this is reflected in state policies which in turn relate to economic development — matters to which our attention will be directed below.

The processes of modernization and industrialization stimulate and require numerous and diverse conditions in economic, political, and social structures, and numerous and diverse currents of social change. Whatever else is entailed in such relationships and processes, there are always associated differential class, geographic, and sectoral benefits, injuries, and conflicts. If economic historians have been diligent in relating specific state actions to the process of economic development, they have been less curious as to why and how particular policies have emerged and others have not, and what has been required to achieve that balance. The why and the how are questions of power; the activity and inactivity of the state a formal manifestation of that power. We shall broaden the historical role of the state to include its passive and concealed as well as its active and obvious behavior, and explore the manner in which the state has responded to and provoked changes in the power structure of the developing societies. Tawney (in his *Land and Labour in China*) was suggesting something of the same focus when he pointed out that "... modern industry ... is a social product, which owes as much to the jurist as to the inventor."

The foregoing may be sharpened by asking a series of questions: Is it plausible to believe that a society based upon agriculture, or agriculture and commerce, can become industrialized without a change in its power relationships? That a change in power relationships would not be closely-reflected at any time and over time in the formal and informal functions of the state, and, in a connected fashion, in substantively changed economic, political, and social institutions? And would all or most of the vital aspects of this process manifest themselves in the form solely of legislative acts, regulations, recorded policies? Finally, if these questions are not taken up as an integral part of any discussion of the role of the state, are they likely to be taken up in a coherent fashion at all?

It is not essential to find resoundingly negative answers to those or similar questions to be persuaded that an examination of the role of the state must be broadened to embrace the more elusive role of power in the process of economic development. That is in any case the controlling aim of what follows. Only the histories of Great Britain, France, and Germany will be examined. This is not to imply that similar studies of, say, Russia, or Italy, or Belgium would replicate one or another of the three under examination. But it may be believed that to suggest the nature and the importance of state power in the industrialization processes of these three quite different instances is to suggest the kinds of questions that must be raised for understanding other societies (and, it should be added, the questions that must be pursued further for a fuller understanding of the three societies examined). We shall see that customary views of these three states — Great Britain as the weak state, France as one that meddled in largely ineffectual ways, and Germany as the archetype of the powerful state — contain as much in the way of confusion as they do of enlightenment.

Great Britain

The manner in which developments in agriculture, trade, industry, finance, and technology combined to produce a process of socioeconomic change of revolutionary proportions extends beyond the boundaries of this paper. The purpose here is limited to relating the role of power and of state policies to those processes. The spotlight in this drama will fall upon a certain portion of the stage, and upon certain players; but it cannot be forgotten that what is delegated to the background or to the wings usually prompted (as it was also prompted by) what is emphasized below.

In 1750, Great Britain was dominated by an increasingly prosperous and progressive agrarian sector, and a trading sector whose imports and exports would triple between that year and 1800, and triple once more before 1840. And this was only the beginning. Technological improvements in the metallurgical industries, the emergence of steam power and the expanded use of coal, the newly-important cotton textile industry, the development and improvement of roads and canals, and the rationalization and technical improvements of agriculture all contributed to Britain's growing economic strength and prosperity in the late eighteenth century.

Moving ahead of and behind these changes was Britain's external trade; and lying behind that was a growing empire and a world whose trade was growing at new high rates. As Mantoux pointed out, "half a century before she became the land of industry *par excellence*, the land of mines, of ironworks and of spinning mills, England was a great commercial country..."³ But to say, as the French did with derision, that England was "a nation of shopkeepers," is to raise questions as to who determined and shaped her policies, at home and abroad. To raise the question is not to answer it, simply, by saying: "shopkeepers." It does raise a useful question, however: To what degree did the new mercantile and industrial classes assert their power over state policy in the period of industrial revolution, in contention with whom, with what degrees of success and failure, and in all these respects with what changes over time?

It was the British mercantilist state against which Adam Smith wrote in 1776. May we equate "mercantilism" in 1750 with "merchant control of the state"? If we see Smith as speaking for a new freedom of enterprise, we may guess that the policies he hoped to abolish were not those most favoring the forward-looking elements in the Britain of his day. His shafts were aimed at entrenched monopolists in trade and industry whose privileges dated from a Crown long dead or one alive but out of touch with

the realities (let alone the potentialities) of the world then in the making. Smith did not create the changes in state policy that followed his *magnum opus*; like Keynes, he made more intelligible the reality of his day, and speeded up and rationalized a changing process of policy-making already under way.

The scale and the risks of industry and foreign trade in the heyday of mercantilist policy encouraged links of dependence between the Crown and private agents. These links were attenuated by the expansiveness of late eighteenth century economic conditions, and even more so in the early decades of the nineteenth century. At issue were those policies regulating foreign trade — especially as exemplified in the Acts of Navigation and Trade, the great chartered companies, and protective tariffs — and those affecting the internal distribution of resources — subsidies, combinations of either capital or labor, protective labor legislation, and grants of monopoly. Some of these institutions had their roots in the sixteenth century (or even earlier), but they had gained strength especially in the seventeenth century.

With the Civil War and the Glorious Revolution, the Crown found its conciliar relationship with English society replaced by an ever stronger and more vociferous Parliament. Parliament in turn came to reflect a balance of vested interests geared to an age in which mercantilist conceptions were taken for granted. Outstanding among these notions was the paramountcy of war and the need to frame economic policy accordingly. Policies that would ensure revenues and armed strength for the Crown also provided profits and security for merchants and manufacturers — whether we refer to attempts to develop a navy, to maintain a favorable trade balance, to initiate new industries, or to frame a labor system that, while protecting labor, made an article of faith of a lowly-paid and highly-disciplined work force. What was good for England and for Englishmen was bad for France and Dutchmen. By the late eighteenth century, and even more after the Napoleonic Wars, things would seem more complex.

In our later examination of France and Germany, we shall note the special importance to be attached to military activity, as that related to the functions of the state. England's insular position meant that military power would come to mean naval power, and it was never forgotten in England that her economic and political strength required that she possess maritime strength. With the opening of the nineteenth century, Britain's sea power was unchallengeable — which meant that it seldom had to be used. The ironic consequence was that the power of military men in Britain's high councils declined throughout the nineteenth century. The Pax Britannica that appeared as Britain's monopoly of the high seas was dependent upon her economic pre-eminence. One evidence of this is that after 1792 Britain's trade exclusive of her colonies exceeded that with her colonies; that is, her imperial and naval strength were handmaidens of her economic strength.⁴

The position to which the military was relegated in nineteenth century Britain, taken together with the foreclosing of feudalism a century before, meant that the road was cleared in Britain for the rise to power of a middle class. The struggle would be between older and newer elements of the mercantile, manufacturing, and financial middle class and a large group of landlords and farmers, and it came to a head in 1832.

The political battle that culminated in the reforms of 1832 was waged essentially between those whose wealth and privileges went back to the period before the industrial revolution, and those who were making that revolution. (Of course, some individuals belonged to neither, and some to both groups.) Among those associated with past achievements were the older merchants whose profit and power were drawn from their positions in the old chartered companies, and the markets, lands, and investments controlled by them. The industrialists tied to the ancient and powerful wool industry, or living under the protective umbrella of a crown grant, sought to retain their wealth and income more through organized power than through innovative enterprise. By the close of the eighteenth century, this meant their strength was held increasingly through political advantages more than business skill.

The landowners occupied a more complex position. Their celebrated tendency to innovate technologically was matched by their impulse to innovate institutionally, especially as exemplified by the accelerated enclosure movement of the period 1760–1830. Progressive though they were in these respects

(and ignoring for the moment the widespread distress that accompanied such progress), they also found common cause with their conservative or reactionary colleagues in Parliament, as they strove to maintain or gain agricultural protection. What of the lesser folk of Great Britain?

Indirectly, the smaller farmer and freeholder had representation in Parliament, for his interests often coincided with those of greater landed wealth; and we may assume that those higher in the economic scale, whether in or out of agriculture, old or new in their interest, were also represented to one degree or another. Totally unrepresented was about seventy percent of the population — made up of artisans, agricultural laborers, miners, dockworkers, soldiers and seamen, household servants (perhaps ten percent of the population, around 1815), and those called paupers, vagrants, and lunatics (more than ten percent of the population). It was these people who were most affected and afflicted by the “social evils of town and countryside.” The role of the state most relevant to their lives was that which steadily eliminated the formal protections offered them by Elizabethan social legislation, that (as in the Combination Laws) prevented them from protecting or advancing themselves, that provided parliamentary machinery for their expulsion from the land, and that, most generally, provided for law and order in the context of a society coming to be ruled by impersonal markets for labor, land, and capital.

The genteel distaste for state action that was made into a set of coherent principles by Adam Smith did not extend to actions to preserve external peace (or domination), or internal order; nor is there any question but that violence to property was considered the most heinous form of violence (for which hanging was deemed an appropriate punishment). A prime function of the state is that of preserving law and order, of course; but law and order for one group often means misery and injustice to many others. The normally silent submission of the powerless is not testimony to their liking for a given state of law and order, but to the enormous (and often subtle) coercive power that lies behind and maintains it. In late eighteenth and early nineteenth century Great Britain, as social conditions deteriorated rapidly both in the declining country towns and the growing urban areas, the avenues of legitimate — let alone effective — protest were as treacherous as they were narrow. Meaningful protective legislation for the common man was not to emerge in Great Britain until the common man organized to seek power; prior to that, whatever the nature of his demands or the manner in which he presented them, he was likely to discover that law and order for him was manifested in the workhouse, the stick, mounted charges, and deportation. In the period under examination, the Peterloo Massacre (1817) stands as an apt symbol of this particular role of the state.

The rising middle class of Great Britain did not push directly for a pattern of law and order suited to their needs; that they took for granted. But to break down the barriers to profit and enterprise still left standing in the late mercantilist period required effort and organization. Sometimes they gained from the short-sightedness of those in power, as when the powerful wool interests, succeeding in preventing further importation of calicoes from India, stimulated the emergence of a domestic cotton textile industry — an industry which, by the first years of the nineteenth century was to overtake and pass the woolen industry, in exports, profits, and power.

The more general aim of the rising merchants and industrialists was to eliminate the artificial advantages possessed by earlier favorites of the state; and in this, their situation was something like the opposite of that on the Continent, where positive action of a stimulating variety was needed. The British entrepreneur, his access to expanding trading opportunities blocked by monopolistic trading grants and barriers both to imports and exports, his ability to develop new industries in keeping with the rising new technology hampered by a restricted labor market, outworn financial institutions, a fiscal system that increased the cost of his raw materials through taxation, and protectionism that kept the price of food up at the same time that it narrowed export markets, kept up a steady din of pressure in Parliament, and organized — most obviously in the latter case, into the General Chamber of Manufacturers.

The strategic problem for the new men was to have a Parliament in which they sat in effective strength, rather than one to which their principal recourse was by petition. This was achieved through the

Reform Bill of 1832, a watershed in Britain's political history. The half-century after the *Wealth of Nations* had witnessed an extraordinary restructuring of Britain's economic activities, and an accompanying mass movement from the countryside to the towns. (By 1831, sixteen percent of the British people already lived in cities of over 100,000 population.) Nevertheless, the formal structure of Parliament still accorded with an earlier, predominantly agricultural, era. The disproportionate representation of well-to-do landowners in both the Commons and the Lords, and the gross under-representation of the new towns, was scandalously exacerbated by the numerous seats (the "rotten Borough") filled by those representing nothing more creditable than anachronism combined with corruption.

It was the purpose of the Reform Bill of 1832 to structure Parliament in a manner more accurately representative of the population and power of Great Britain. If it fell short of that goal in many ways, its effect was nonetheless to bring about its most desired consequence: a Parliament responsive to the new middle class of Great Britain. In the decades that followed, this general political achievement made easier a general economic achievement: the legalized dominance of the impersonal market, rather than statutes, over the treatment of land, labor, and capital. Labor lost what social protection it still retained when, in 1834, the new Poor Law was passed; landowners lost their protection when the Corn Laws were repealed in 1846; and trade was made free with the repeal of the Navigation Acts, in 1849. In these instances (and many more of lesser fame), the state was acting *negatively*, by removing what had previously existed; but its actions were nonetheless vital as regards their impact on the process of economic development. In the vital area of finance, state actions were a combination of the negative and the positive, and they require a special comment, in light of the importance of finance in the process of economic development.

Two major developments in the quarter century stretching back from 1720, both sensible in their time, were to crimp the process of capital accumulation by the late eighteenth and, *a fortiori*, the early nineteenth century. The Bank of England was chartered in 1694, in the first instance to enlist the aid of powerful merchants in the floating of the public debt. In 1720, the Bubble Act was passed, as a means of preventing the feverish speculation that immediately preceded that year (and which was also taking place in France and Holland). Between the Bank and the Bubble Act, the state had created powers that by the late eighteenth century held back the accumulation of capital, and that hindered its optimum mobilization and utilization.⁵

By 1800, there was a clearly evident shortage of capital, as measured by the needs of the new traders and industrialists — located, it should be noted, largely outside of London. What was evident was not quite real, however, for the shortage of capital in England was institutional; it could be overcome by new organization. The shortage was in fact partially overcome (despite the role of the state rather than because of it) as the new industrial firms relied for their capital formation on the combination of commercial credit, private wealth, and reinvested profits. In turn this meant that the pressure to keep wages down throughout the entire period of the industrial revolution was unremitting.

Financial shortages were mitigated by the spontaneous development of the so-called country banks, and by their correspondent relationships with the London private bankers. Around 1750, there were only a few country banks; by 1825 there were over six hundred. The Bubble Act prevented these banks (and the new firms) from incorporating, except through the intricately-won favors of the state; and the Bank of England's vision was confined to the immediate environs of London, where it had achieved a *de facto* power over note issue and control over the nation's specie reserves. The country banks came into existence under the prod of economic forces rather than through the action of the state (as would be the norm in industrial England for railroads, mines, mills, and factories). Usually begun by those not in agriculture, the banks served the function of making the financial surplus derived from agriculture available to the growing merchant industrialists in the form of short-term, or commercial credit. The merchant industrialists for all practical purposes were prevented from incorporating (which would have eased their problem of finding capital), and there were no available sources for long-term financing.

Industry was able to grow rapidly in any case, 1) because the low capital-output ratio of this early stage of industrialization allowed commercial credit to play a more important financing role than would subsequently be true, and 2) because of the ability of entrepreneurs to finance their capital formation partially through the harsh exploitation of labor, free of social constraint. As G. D. H. Cole has argued,

Up to nearly the middle of the [nineteenth] century, though wealth was accumulating fast and average rates of profit were high, industry suffered from a severe shortage of available capital. Banking was hardly put on secure foundations adapted to the new needs of industry for credit until after the Bank Charter Act of 1844. And, although the joint stock company as a form of organization was extending its scope throughout the century, it was not securely established, or made into a flexible instrument for the raising of capital for ordinary business, until the principle of limited liability was generally conceded to shareholders by the Acts of 1855 and 1862.⁶

The first steps to undo the Bubble Act of 1720 were taken in 1826; but they were only first steps and did not adequately serve the needs of the new business community. It was not until after 1832, when the business classes gained control of the governmental machinery, that financial institutions could be formally created to serve their needs. By the 1850's, land, labor, and capital were available to be bought, sold, and organized in keeping with the needs of business enterprise, as was accordingly true of the developing structures of production, trade, and consumption. By the mid-nineteenth century, British enterprise was supreme in its technology, its drive, and in its astounding advances over the rest of the world. It wanted not state intervention, but the freedom to seek its way — which, by then, it had won. By then it also had the grudging cooperation of the older landed aristocracy (which was gaining materially, if not politically, as a result of the growth of Britain's economy), but it had something like the opposite from the mass of the British people — unenfranchised, exploited, crowded into filthy and dangerous slums, working long hours in the frightful conditions of mine, mill, and factory.

The repeal of the Corn Laws and of the Acts of Navigation and Trade and the passage of the Bank Charter Act in the 1840's stood as both symbol and reality of the triumphant *laissez-faire* state, run by and for men of business and mobile capital. Coming as they did on the heels of the once virile but now faded Chartist movement in England (and as the Continent moved into the 1848 revolutions), these achievements gave considerable reason to view Britain at mid-century as economic liberalism ascendant.

But as the curtain rose on that spectacle, lurking off on both the left and the right sides of the stage were two formidable sets of players who would become part of an enlarged *dramatis personae* and insist on a new script. On the left were the British trade unionists (old and new) and socialists, on the right the new British imperialists and their friends. Ironically, both groups owed the possibility of their emergence as much to the successes as to the failures of the works and policies of the economic liberals. The latter (as the Liberal Party), by 1914, would find themselves squeezed into a very tight corner; nor would triumph be found for those of a Labour or Tory persuasion. After 1850, as so often before, much of what those who sought power in Britain would confront would be determined not by themselves alone, but by developments taking place on still another stage, on which ranged spreading industrialization, uneven changes in world supply and demand, the domestic and world strategies of other nations, and the emergence of organized labor and socialist movements. The muddle that ensued in Britain, especially after the 1880's, gave some minimal push toward material improvement for the common man, and helped Britain to hang on in the ranks of the major powers. But the developing tripartite struggle between Labourite, Liberal, and Conservative — each with some but none with enough power — was also to mean multification of the economic dynamics of Britain, when compared with her principal rivals — and especially Germany.

In retrospect, it is clear that the unchallenged economic and political status of mid-nineteenth century Britain in the world could not but be temporary, if only because her investments and sales to the other western nations were but the other side of a coin which was the industrialization and rising strength of those nations. It is equally clear that the Liberal State in Britain was one whose days were numbered; for,

just as Britain's unique position in the world was diminished by its successful functioning, so too was the seemingly unchallengeable strength of the economic liberals a matter for erosion by the time and changing circumstances. To wage earners, the economic liberties of *laissez-faire* Britain meant oppression and exploitation; to those motivated by imperialist dreams or economic threats, the *laissez-faire* state seemed to promise lost opportunities and lurking disaster. Perhaps more fundamentally, Britain's economic liberals, having apparently disestablished the old holders of political and economic power had at the same time created a new society and new problems — not just for others, but for themselves as well. In short, the newly-created free institutions soon brought about a society requiring further institutional change. Thus, to the discontent and strivings of others, one must add growing disenchantment on the part of the prime beneficiaries of the new order of things. In Britain's case, as elsewhere, supposedly eternal principles were found to be something less than that. If there could be some doubt about this melancholy observation in the generation or so after 1832, there could be none when a clear struggle for power and change became evident in the 1880s and beyond.

It would be footless to try to date the first shots fired against the Liberal State, for its reign was never entirely peaceful. Brebner has characterized the process so well as to warrant quoting him at length:

Up to 1848 industry and the Philosophical Radicals repeatedly succeeded in using the masses against the land, but the land got its revenge by committing the state to positive intervention in nearly every economic activity, usually on humanitarian, anti-industrial grounds, but practically always keeping as close as possible to Bentham's model of the artificial indentification of interests by central authority and local inspectability. The land had both motivation and votes; the pure Benthamites mustered few votes, but they dominated royal commissions and Parliamentary committees by their superb confidence that they knew exactly and scientifically what was to be done. Historically, of course, Toryism has been notably friendly to planning as well as to humanitarianism. The midnineteenth century dance, therefore, was like a minuet: Parliamentary reform in 1832, the first effective Factory Act in 1833; Peel's Budget in 1841, the Mines Act in 1842; repeal of the Corn Laws in 1846, the Ten Hours Act in 1847.⁷

After the 1850s it was not only the jealousy or the gentility of the landed interest that pushed the state toward intervention and that attempted to blunt the edge of rampant economic individualism. Institutional reforms such as those cited above by G. D. H. Cole made it less necessary for the employer to find his capital entirely in the sweat of his employees or in the surplus funds of scarce partners; and as the necessity for abstinence and pinchpenny thrift diminished for the employer, so too did the principled justification for exploited labor. Thus it was that when the skilled wage earners formed into unions from the 1850s on, they began to make successes both because they themselves pushed harder and because what they pushed against was less firm.

In 1867 Disraeli extended the franchise to some wage earners — both “to dish the Whigs” and “to kill democracy by kindness” — and paved the way to the Third Reform Act of 1884, which in extending the franchise to all males, laid the basis for a working-class majority and the ultimate formation of a Labour Party (1906).

These changes in the political sphere were accelerated by the organization of the trade unions and the emergence of socialist groups. In 1851 the Amalgamated Society of Engineers formed. It was the first of the “New Model” unions, and in certain key respects it was a new model: it combined the principles of a Friendly Society with that of a skilled trades union, shied away from state intervention in favor of controlling its own market, and it worked politically within the traditional framework, normally satisfying itself with scraps drawn from the Liberal table. (The principles and operations of the American craft unions of the A. F. L. were to be much the same.) After sharp gains in type and number in the 1860s, the skilled unions found themselves losing strength during the depression years after 1873. As the depression wore on into the eighties and nineties, new rumblings were heard in the ranks of labor, and especially from unskilled labor. In the late 1880s the first lasting unions of unskilled workers began to be formed —

by the miners, the gas workers, and the dock workers. (Again the American counterpart may be found, in the formation of the C. I. O. in the depression of the 1930s).

Out of the changing patterns of unionism that emerged from the depression, and growing alongside of them, was the new militancy and socialism of Keir Hardie (of the Miners), and a deeper and broader concern with the need for and the possibilities of social control through gaining control over the state. In the opening years of the twentieth century, this message was articulated principally through the Independent Labour Party, backed by the Trades Union Council and the Fabian Society, the latter an essentially middle-class group.

All this was happening within a rapidly changing economic context, both at home and abroad. Cheap steel, cheap and rapid rail and water transportation, the new chemical and electrical industries, and the use of petroleum all combined in complicated ways to foster mass production and to spread industrialization outside Britain even more than for Britain herself. New and urgent needs for raw materials and new and far-flung sources of these materials went hand in hand with new market, new investment, and new geographic possibilities and needs as regards political control and strategic imperatives. The age of the new industrialism became willy-nilly the age of the new imperialism. It could not for Britain remain an age of *laissez-faire*; nor, as we shall see, did it exist as that at any time in a meaningful way for her French and German rivals.

The *laissez-faire* state in Britain began to be shunted aside in substantial fashion in the years after 1873, as reflected less in statutes than in the informal realities of British life. The behavior of land, labor, and capital ceased to run in terms principally of an impersonal market mechanism. More than that, and partially accounting for it, the formally weak state mechanism was seen as something to be controlled, that it might be put to use — whether by workers, manufacturers, merchants, financiers, or imperialists. In the 1870s the impulse to have a world in which the British flag would always fly in the sun was already strong and growing, and before long Britain's earlier start in empire would expand to a headlong and triumphant finish — if also in strong competition with other nations similarly motivated. Before long, indeed before the close of the century, Britain would also face intensive and effective competition in foreign markets and rising tariff walls from the Germans, the French, the Americans, and even the Japanese — a condition made more threatening because not only were economic gains in colonial areas thus made more difficult, but also because it entailed a growing weakness in the vital markets of the very nations from which the new competition now came — especially in Germany and the United States. (It should be pointed out that in the period 1870-1914, Britain's *absolute* economic position improved, as the entire world economy expanded rapidly; but her *relative* position was declining sharply, especially after 1895.) The Tariff Reform campaign begun by Chamberlain in 1903 met with decisive failure in 1906; but it was a harbinger of things to come in the land of free trade.

Imperial expansion meant international rivalry, and ultimately growing hostility. Thus, as demands for foreign trade restrictions in Britain arose, the impersonal market at home was also departed from, as its cutting edge was blunted by business combination and cooperation. Protectionism, imperialism, and cartelization spread through all the industrializing nations. For changes in commercial policy, state influence was essential; and the latter required organization and cooperation of the business community. Nor can it be forgotten that what business needed fitted nicely in substance if not always in tone with what "imperialists" and workers wanted. The mood of economic and geographic defensive-aggressiveness was well-suited to the growth of a state that would take an explicitly more active role.

Already by 1900, other economies were catching up with, or had surpassed, industrial Britain, and as her balmy economic days came to an end, so too did Britain's period of lax rule. If the forms and much of the rhetoric of economic liberalism continued to hold sway even up to the outbreak of World War I in Britain, the reality was that of the intrusive and expanding state. The minimal positive role of the British state had been made possible by the pre-eminence of the British economy in the world, and the effectively uncontested power of British businessmen at home. By the close of the century, neither condition held,

and Britain began to lurch toward a welfare imperialist state. Rhetoric might continue to argue the benign influence of impersonal markets on the welfare of Britain and Britons; in practice, wage earners, farmers, merchants, and industrialists sought to protect themselves from the market through organization and politics intended to supersede the free market, whose domestic and foreign pressures had become destructive. All this took place against a backdrop of worldwide imperialist scrambling that inexorably led to struggle, arms races, increasing fiscal demands and the repeated incidents and small wars that culminated in World War I. The intermixed causes and results were manifest in a new power structure in Britain, and continuous pressures on the state to represent the various elements of that structure.

The depression that began in the 1870s lasted until the mid-1890s. Taking place as it did, and because it did, in a period of rapid technological advance, spreading industrialization, expanding sources of supply, and vastly improved means of transportation and communication, the period was one of drastically falling prices and a hurly-burly of new competitive relationships. If this meant reduced returns on capital in Britain, it also meant a period of rising real wages for employed wage earners.

When prices began to rise again in the late nineties, and continued to do so more or less steadily up to the outbreak of war, the rise in real wages was reversed, as was the modest redistribution of income of the earlier period. Whatever the process, the results by 1910 remained grim enough from the working man's point of view: eighty-five percent of the British people were then receiving one-third of the net national income of Britain; the top three percent of the population also received one-third. In the decade before the war, exports went up at rates more than twice that of imports (and the prices of the latter, largely for foodstuffs and raw materials, went up more rapidly than the former, to the disadvantage of the workers), to the benefit largely of property owners. It was a period of economic euphoria for the business classes, when rising prices and exports masked the falling rate of real expansion of the British economy and the stagnation to which its productive structure was already subject. The period has been called Britain's economic Indian summer, but it was a winter of discontent for her wage earners.

It was also the period in which harsh juridical acts, most notably the Taff Vale decision, fired a strong drive for political power for labor, through the Independent Labour Party; when Labour pressures and Conservative and Liberal apprehension (or sophistication) led to the emergence of a social security system — old-age pensions, unemployment insurance, health insurance, and employer liability for worker injuries. Also resulting from mixed pressures was the evolution by 1891 of a system of free (and compulsory) education for all children up to the age of twelve — a development read by some as meaning socialism and by others as providing the needed literacy for a functioning industrial society. In the event, it was to mean a bit of both, and much in between. Whatever else tax-financed education meant, it required higher revenues for the state. In one of those curious convolutions that make for social change, those needs combined with the rapidly-growing expenses of defending her growing empire and meeting naval threats from abroad to produce Britain's first graduated income tax and what were then seen as steep "death duties" (in 1894). If these measures were introduced by a Liberal Chancellor (Sir William Harcourt) they were also attacked by a liberal economist (Goschen) as but the beginning of an endless attack on wealth and income.

In fact, by the 1890s Britain had already and quite evidently entered an epoch of dilemmas, which for her still continues. She had entered what has been called the era of ill-feeling, which is perhaps another way of describing an era in which the struggle for power, for control over the state, had been joined by all segments of the population, all with past, present, or future claims to effective power.

The struggle for power seems in retrospect to have been unavoidable. Whether the slowdown and near-ossification of the British economy that attended the struggle (and that continued after 1914) was also unavoidable is a moot question; but it certainly was undesirable, and it was as surely connected to the struggle for power in and by Britain. As the twentieth century opened and hurtled toward war, the economic growth enjoyed by Britain came to her from an expansion powered by the innovation of others, if it was also importantly-financed by her. What did not change was the structure of production of the British economy, which remained dependent upon exports of textiles, coal, machinery, rails, and ships.

Her financial supremacy was dependent upon her industrial supremacy. She was losing the latter, and soon the former would become her incubus. The *laissez-faire* state was no match for such a time; nor, by 1914, was either the structure of power or the array of problems facing Britain able to be coped with by anything remotely resembling the impersonal markets of yore. Britain had rejoined the world of stringency.

France and Germany

After 1750 and up to World War I, the degree of state intervention in economic affairs in Great Britain was roughly inverse to the pace of economic change. A summary view shows a secular decline in the explicit powers of the state as the economy pushed through the early and later industrial revolution in the century after the *Wealth of Nations*; in the half century preceding 1914, the process was reversed. In the earlier period of British capitalism, for the state to “do nothing,” meant that it left the resolution of conflicts to the strongest of the private parties, that is, the rising industrial and financial interests. But toward the end of the nineteenth century, in what has been called a “failure of nerve,” the state took on more functions (or had more functions placed upon it), while the economy — though still absolutely strong and prosperous — began to lose its vitality.

In both France and Germany, by contrast, the state’s hand was never more than briefly withdrawn from economic affairs. The long-run pattern of thoroughgoing governmental intervention in the two countries’ economic affairs is made worthier of remark when it is recognized that it persisted despite intermittent attempts to move in a different direction. But in both countries, tradition, new possibilities and aspiration, and external dynamics combined to produce a centripetal force that drew much of the vitality to the state; and that meant the economic development of both France and Germany would depend on the strength of the centrifugal forces emanating from the state. In the case of Germany, the latter were very powerful; for France, they were considerably less so.

We shall be able to understand this difference better if we view the “state’s hand” as being moved by, as well as moving, the levers of power in both societies, and resist the temptation to hold “non-economic” relationships in abeyance while examining “economic” developments. To bring out both the similarities and the contrasts between France and Germany sharply, their experiences will be examined in tandem.

A starting-point for this analysis of France and Germany must be their totally different experiences with nationhood. Flux as well as stability has of course characterized the historical experience of all nations. But France holds closer to what we might call a pattern of geographic and cultural stability than most other nations, and Germany falls at the other end of the spectrum. Not always only a geographic expression but often something less, “Germany” has never been made up of only Germans, nor has it (except perhaps under Hitler) comprehended all Germans. When the “real” Germany came into existence, in 1871, it symbolized the tortuous path of German history: Bismarck, representing Prussian particularism and not wanting a German nation, pushed inexorably toward a nation that, bringing in Frenchmen and Poles and Slavs, left out millions of Germans (most notably those of Austria).

In 1750, there were Germans, a German language, a German culture, something that could be called German history; but there was not a German economy, nor was there a German State. By then, however, France had experienced almost a millennium of history. There were frequent and sharp struggles for the Crown in the medieval past of France, but there was in any case a Crown for which to struggle. In the sixteenth century, civil, religious, and military struggle, while weakening France, strengthened the tendency toward a centralized monarchy. It was that monarchy that Richelieu would represent, and that Louis XIV would embody, in the seventeenth century. Before the Sun King, but even more during and after his reign, France — whether a monarchy, an empire, or a republic — would be ruled autocratically or oligarchically, and the rule would center in Paris, from which and to which flowed French power, prestige, and wealth. As for economic affairs, there have been few moments since the seventeenth century when the great mercantilist Colbert would have felt a stranger to the economic institutions of France.

In short, French history has displayed a continuity that has been virtually unique — despite (or perhaps because of) its revolutions, restorations, empires, and republics. The substance of that continuity is to be found in the intimate relationship between political, social, and economic life, and the strains and mutual benefits and constraints that have stemmed from that intimacy; on the strength of her agricultural base and the (usually negatively exercised) political power of her farmers; in the almost incredible persistence and authority of Paris as the center of French social existence; in the abiding emphasis on external ambitions, combining economic with political and military means and ends. France industrialized during the nineteenth century, and her population grew; but both at very slow rates. France fought, won, and lost wars and much in the way of territory. Withal, as a nation France ranked among the most prosperous, from the seventeenth century to the present — and more so than Britain, until the end of the eighteenth century. But her strength came initially from her excellent agricultural base, and later from luxury and colonial trade and finance, rather than from industry. Much has been made, and rightly so, of France's deficiency of modern industrial resources, notably coal. In an interacting manner, that deficiency retarded her metallurgical and chemical industries, and held back railroad development. As we shall see, however, Germany's industrial resources were abundant only in lignite and potash, but her resource deficiencies were converted into a stimulus for high-powered industrialism. The point to be made is that resource abundance or shortage by itself has an indeterminate effect in the modern world; in the case of both France and Germany it was what the changing social context made of such resources that counted heavily (as was even more clearly true in Japan, for example).

Germany would wait until late in the nineteenth century to become a nation. But just before then, and especially just after it, Germany would enter upon a process of industrialization that would be amazing in its unprecedentedly rapid rate, and in the economic structure and strength it would establish. The economy would be lop-sided in favor of heavy industry, highly progressive in its technology, and burdened with a high-cost agricultural sector and a limited natural resource base. The process of development would take advantage of Germany's defects, and weld economics, politics, and militarism together into a deadly weapon.

Perhaps the most vivid characteristic of the German industrialization process is that it was indirectly — but certainly — fostered by a backward-looking feudal nobility, the Junkers. In its impulses anti-industrial, anti-capitalist, and particularistic rather than pan-German, the Junker caste rose from the unpromising sandy soils of Prussia to become the makers and the rulers of Imperial Germany. Because they aimed at something else, their path to power was crooked; but this anachronistic coterie of militaristic landlords presided over the strongest nation and the most powerful economy of Europe — and their power would be matched by their social prestige in industrial Germany. The land that had produced a Bach, a Beethoven, a Schiller, a Goethe, a Marx, a Mann, was to be ruled by the spirits of Fichte and List, Bismarck and Moltke, by the spiked helmet, the protective tariff, the cartel, by blood and iron and soil.

The power the Junkers came to possess they snatched not from a vacuum, but from a tangle of nettles. Against their single-minded determination, forged in their long militaristic past, the alternative powers of Germany were effete. In Western Europe generally, and in the West and the South of Germany also, the breakdown of medieval economic life, the price revolutions of the sixteenth century, the military upheavals, and the worldwide expansion and economic changes of the seventeenth and eighteenth centuries all combined to reduce the hold of the landed aristocracy on the peasants; but all those same events gave more land and more power to the feudal nobility of Prussia, and made harsher the bonds of serfdom on the peasants.

Consistent with the historical pattern, and placing the final touches on the picture, was the meaning of the agrarian reforms in Germany after Jena and Vienna. As Gerschenkron points out,

The abolition of serfdom in Prussia at the beginning of the nineteenth century greatly increased the economic power of the Junkers, [and] allowed the Junkers to swallow up much additional

land of the former serfs and so transformed peasants into landless agricultural laborers. ... The German feudal class was immensely strengthened *after* the French Revolution had destroyed feudal rights in France.⁸

Any explanation for the increasing power of the Junkers in Prussia (and in Germany) after 1815 must take into account that they were not just militarists and nobles; they were farmers of a capitalistic bent, and in their stronghold east of the Elbe River they were farming poor soil. They were interested in and required profits, but to satisfy their economic needs, they had to gain and to use political power.⁹ That they were also feudal in outlook meant that economics and politics would combine with militarism, given either the need or the opportunity — and the Junkers faced both. As a caste, their militaristic bent, and their power and prestige, were strengthened by the successful and aggressive rule of Frederick the Great (1740–1786). Their greed as farmers came not from the ease but from the difficulties of farming the poor lands east of the Elbe River; it would be made feverish by the falling grain prices of the years after 1873. It is remarkable that the Junkers were by the nineteenth century still to retain all the characteristics of a *posse comitatus* while also developing into an economically aggressive group of capitalistic farmers; but even more remarkable is that they became the *de facto* rulers of Imperial Germany.

It is generally accepted, and central to our whole analysis, that power accrues to those who control what is most valued in a given society. To be more than a tautology, that notion must be elaborated into an analysis of what leads a society to value what it does, and to change its valuations over time. In “Germany,” there was never a moment between 1750 and 1914 when the drive for Junker power was uncontested. The pursuit of power through ruthless organization and military might had long been a Prussian characteristic; but what would become Imperial Germany in 1871 contained cities, regions, and peoples whose long histories were marked less by military prowess than by economic, intellectual, political, and cultural achievements. If there now seems an inevitable quality to the rise of the Junkers, that is a defect of the retrospective view.

For Germany, as for France and Great Britain (to mention no others), an essential place to begin to understand the complex evolution of power in the modern period is with their experience with social revolution; and, in the case of Germany, her social revolution *manqué*.

Raising the question immediately suggests the years of Civil War and Glorious Revolution in England in the seventeenth century. If the causes of that process remain much in dispute, there is general agreement that among its consequences were the destruction of feudalism in England, the weakening of the Crown, and the steady emergence of middle-class institutions and middle-class rule. All this, taken together with developments outside England, would combine to produce a State dominated by Whig (later Liberal) politics, and a society dominated by the economics of the Industrial Revolution. Some would argue that the process culminating in the Glorious Revolution *was* England’s social revolution; others would contend that what was achieved by 1689 made it possible for Great Britain to embark on a process of continuous, substantial, and gradual change that would continue into the twentieth century.

When the French Revolution broke out in 1789, French society was still less responsive to economic stimuli than England had been a century earlier. In the seventeenth and early eighteenth centuries, the Crown was the main source of modernizing influences in France; after 1750 it was a force that sucked life and vitality from a “hothouse economy” that remained archaic in critical respects — its agriculture still much encumbered by feudal holdovers and (with important exceptions) organizational and technological backwardness, its trade and finance dependent to a high degree on colonial products, and Crown stimulation and support, its industries saddled by outworn guild regulations and producing largely luxury or military goods. In addition, and interacting with these characteristics, the goals of the *bourgeoisie* were only proximately business-like; the ideal was prestige and security, both (and financial gain) to be found by clustering at the Court, or through kingly dispensations. The *bourgeoisie* began the Revolution; but it is important to understand who they were and what they sought, if only to comprehend what they gained. Cobban is doubtless correct when he characterizes the revolutionary *bourgeoisie* as “venal officers,

lawyers, professional men, proprietors, with a few financiers and merchants, who invested their money, for the most part in land or *rentes* ... Privilege was [their] enemy, equality [their] aim, though it must be remembered that the equality desired by the Third Estate was an equality not of property but of status.”¹⁰

The Third Estate declared the Revolution; its effective force was given to it by the subsequent support of the *menu peuple*: urban artisans and petty shopkeepers, craftsmen, soldiers, and, above all, peasants. The peasants wished to get the aristocracy off their backs, and in that they largely succeeded before the century ended. They wished little more than that; and because France was still an agrarian society, the peasants thus established the limits of revolutionary change. The Revolution meant the dismantling of the seigneurial system; it did not mean that a vigorous business class would rise in its place and bring industrial capitalism to France. Unlike Germany, France did have a social revolution; unlike Britain, hers left a politically powerful peasantry in position to hold back full industrialization. The condition of workers did not improve perceptibly for most of the ensuing century, and in many ways it deteriorated; the countryside fell under the control of farmers who (except for a small percentage) were as unprogressive as they were numerous and who, in fixing their eyes on stability and security, played a role in French politics that over time was transformed from conservatism to reaction.

And from the *bourgeois* revolution, what of the *bourgeoisie*? And what of the relationship between them and the state, and between the state and industrialization? When we later examine specific state policies in Germany, as they acted upon economic development, we shall see that the ends of the state were not always achieved, and that the state's failure could be the economy's success; but we shall also see that the role of the (Prussian and later the Imperial) state was on balance one that fostered rapid development and the development of a powerful industrial complex. The pace and quality of French economic development in the nineteenth century was much different from that of Germany's; although the relationship of the *haute bourgeoisie* to the state and of the state to economic affairs was also very close. This suggests that not closeness but the nature of the relationship is what requires emphasis.

Except for the period of the Second Empire [Imperial Bonapartist regime of Napoleon III from 1852 to 1870], and in important respects even then, there was an old-fashioned quality to the role of the state in France, and of the attitude of businessmen toward the state. In France, as elsewhere, the state was often a tool needed to achieve certain ends; but in France after the Revolution, as before it, to become a part of the state was a goal in itself, for there one found power, prestige, profit, and security.

Before the Revolution, the Crown served more to weaken than to strengthen the economy, as its unproductive expenditures rose and it placed rising fiscal burdens on the producing sectors of the society. The revolutionary years, and especially those after 1799, served to rid France of feudalism, to modernize her political system, to place labor and finance at the service of enterprise and, for the years of the Continental System, to stimulate or strengthen certain industries (especially iron and textiles). But the longer-run effects of the Revolution and of Napoleon I were more to stabilize than to change the economic structure of France. Napoleon's Continental System itself was seventeenth century mercantilism carried to its logical extremes. In both periods, the heavy role of the state substituted for a lack of creative initiative (or the power to take the initiative) in the business classes; and in both instances it would be difficult to find long-run beneficial consequences.

The upheavals of the French Revolution of course marked a turning point in the evolution of social institutions in France, releasing her from the fusty industrial and labor restrictions of Colbert's day, as feudal institutions on the land were also abolished. Accordingly, in the nineteenth century, and especially after 1830, the French economy benefitted from the new order of things. However, although the French economy would grow through most of the first half of the nineteenth century (and especially in the 1840s), and although her only important contender for economic leadership then was Great Britain, it was not without reason that French industrialists and statesmen were “querulous, apprehensive, and dissatisfied,” and that protection and security remained high priorities. In the extraordinary nineteenth century, France's economy was of course growing; but the British economy was in the midst of an industrial revolution.

The restoration placed a landed aristocracy back in the saddle of power in France; the July Monarchy of Louis Philippe undid that, and meant, as Laffitte said, “now the bankers will rule” — and Laffitte had reason to know. The “rule of the finance bourgeoisie” did not disturb the heavy protective tariffs of France. It did mean that transportation (roads, canals, and railroads), communications, and some industries would grow — and that opposition to the elite rule would arise from some industries, most notably from cotton textiles. Oligarchic rule did nothing to improve the position of the worker, and allowed it to deteriorate from an already poor position, as factories multiplied. After the Revolution, *le loi Chapelier* prohibited associations of both workers and businessmen; and, although the former were systematically suppressed, such was not the case for business associations. Not until 1841 was any kind of protective legislation for workers passed. The Factory Law of 1841 prohibited factory employment to children under eight years of age, and limited hours of factory work for those between eight and twelve years to eight hours a day. There were other provisions; but they, like those mentioned, were of little import, for the law provided only slight financial penalties for violations, and illustrated its spirit perfectly when it made no provisions for inspectors to enforce the law.

The French Revolution of 1848 came from the restiveness of urban and rural workers, from an economic crisis, and from the tight rule of an economy held in a few hands. Its perverse result was the Second Empire of Louis Bonaparte (1852–1870), the most creative period of nineteenth century French economic history. Lord Clarendon, visiting Paris in 1862 after a ten-year absence, was astonished by the almost total reconstruction of the city in its physical and social qualities; but he also found continuity in France, where “every one hopes and trusts in Government initiative, Government employ, Government patronage, Government encouragement, Government subvention, and Government monopoly.”

The broad new boulevards radiating from the center of an elegant new Paris accurately symbolized the new France. The railroad system would move toward completion by 1860, and it would radiate from a rich and prosperous Paris, as France itself would become the center of a growing financial empire, in which considerations of profit, prestige and imperial power would be inextricably mixed. As Cameron has shown, France exported a great amount of capital to the rest of Europe after 1850, while neglecting investment in her own industries, which would languish until twenty years or so just before World War I.

The guiding impulses behind the economic achievements of the Second Empire were unusual, but effective. They were embodied in the persons of Michel Chevalier, the Péreire brothers, and Infantin, all followers of the utopian socialist Saint-Simon. Their vision combined mercantilist with technocratic with socialist aspirations, and it required the heavy participation of state power for its effectuation. Not surprisingly, the socialist integument gave way to the mercantilist and technocratic elements, and what working-class and socialist sentiments grew during the Second Empire had to grow against the fierce opposition of the state.

Among the major economic achievements of the period were those in rail transportation, finance, and commercial policy. The railroads, after a flurry of building activity in the years after 1837, had fallen into an unsatisfactory state by the time Louis Napoleon became President (in 1848). Beginning then, but especially after 1852, the railroads were reorganized, modernized, and extended, so that by 1860 the French railway system was (temporarily) the most unified and effective in the entire world. The principal agency at work in this transformation was the *Crédit Mobilier*, founded by the Péreire brothers, partially subsidized and controlled by the State, and organized with the aim of speeding the industrialization of France. The *Crédit Mobilier* confined its operations within France largely to the stimulation of public works and public utilities — railroads, harbors, and gas works. It also played a vital role in bringing France to a position of international financial eminence by 1860. The same spirit led to the creation of the *Crédit Foncier* (to finance land mortgages), for the improvement of French agriculture — but which probably had an equal or greater impact, through municipal financing, on the reconstruction of Outlying French cities.

Napoleon III and his advisors initiated many dramatic changes in what we now call the economic infrastructure — in public works, finance, transportation, and communications — but none of these policies

were for France quite so dramatic (and few reveal so well the ways of power in France) as that represented by the Cobden-Chevalier Treaty of 1860. The protectionist quality of French commercial policy had remained virtually unchanged since the days of Colbert, except for the short-lived movement toward freer trade established by the Anglo-French Treaty of 1786 (ended by a revival of protectionism during the Revolution). Characteristically, when free trade was once more attempted in France, it had to be accomplished by imperial decree, using the treaty powers available to the Emperor, rather than by passage through the Chambers. Although freer trade was favored by wine growers, silk manufacturers, and the large coastal merchants — whose spokesman had long been the Bastiat of the sardonic “Petition of the Candlemakers” — the strong protectionist element in French agriculture and industry raised and continued an outcry against what they took to be a death blow to their prosperity. It was the general expansion of the 1850s that made liberalization at all possible in France, as elsewhere; but the decisive element in the French case was the power of the Emperor to implement his conviction that the French economy would grow stronger through facing the winds of competition than through a languid security.

The ten-year treaty (followed in 1863 by the lapse of the French Navigation acts) did have the effect of stimulating and somewhat modernizing French industry, and it was accompanied by a liberalization process between France and others of her trading partners, most notably with the German *Zollverein* (Customs Union) states, and with Belgium. Even the depressed years following 1873 did not end totally the freer pattern initiated during the Third Empire, although there was a gradual encrustation of various kinds of protective devices. But the latter were slight when compared to the Méline Tariff of 1892, which brought France back to her traditional position with *a vengeance*.

Internal and external strife had long been the lot of France, and had often exacted their price; but the combination of the two in 1870-71, although both were seemingly recovered from with surprising speed, left France shaken. The years of the Second Empire had been the most dynamic and promising years of economic development France had known for a century or more; they were an outcome of many developments outside of as well as in France, but at their heart was a strong Emperor, surrounded by men of vision and skill. Taken together, these events and leaders contributed to a euphoric condition for France — if not for all Frenchmen — while strengthening the state and the economy. It was not to last for long. By 1870, economic recession, imperial dreams, worker unrest, and Prussian strength combined to bring France to earth again. And as Clapham says (perhaps a bit strongly):

[T]he war of 1870, even more the Parisian turmoil of 1871 and the long years of national gloom and self-distrust which followed, chilled the confident ardour without which no nation ever did great work — even in factory building. France was doubting the value of her government and her Republican institutions, and doubting of her own destiny, for the best part of a generation after 1870. Contrast the self-confident, not to say self-satisfied, frame of mind in the England of 1860, in the Germany of 1875, in the United States always.¹¹

One would have to qualify Clapham’s observations by pointing out that economic life had lost much of its vigor a few years before the outbreak of the Franco-Prussian War, and that there was at least a slight boom for the several years preceding 1882. But that boom was followed by an undoubted period of stagnation until 1896, at which time France entered her most sustained and substantial period of industrialization, finally making full use of the infrastructure laid down thirty or forty years earlier.

The economic modernization of the Second Empire, as far as it went, stopped short of becoming part of a forceful industrialization movement — although the latter was certainly part of the intentions of the Saint-Simonians who guided the changes of that period. More significant than the distance covered in that period, is that the great changes were almost all long overdue, given France’s wealth, talent, and cultural strength. When industrialization quickened and took some kind of hold in France after 1895, what might have been noteworthy had it occurred a generation or more earlier, was now noteworthy because of how late it had appeared.

Even so, there was a forced quality to the twenty years or so after 1895, and much of the initial force was provided by the Méline Tariff. Deplorable though the strong protectionism of that legislation may have been in classical liberal terms, its sheltering walls did, in providing security to the French farmers (whose long-run decline was slowed down) and industrialists, promote economic advance. In that period, as during the Second Empire, much that was possible was made so by the buoyancy of the world economy, and by the positive intervention of the state. The structure of French industry changed — in the form of growing metallurgical, automotive, electrical, and chemical industries — but the structure of power changed less. In the nature of things, the location of new economic activities somewhat diminished the absolute dominance of Paris; but Paris still remained very much the center of French life in all respects. Even when industrialization gave rise to significant urbanization outside of Paris, the growth was of small cities. As late as 1936, for example, about sixteen percent of the French people lived in cities over 100,000 in population. As we saw earlier, the British had reached that figure by 1831, and by 1936 had forty percent of their population in cities of that size and *over*.¹² Kindleberger is by no means alone in his contention that the combination of “hydrocephalic” Paris and the small size of other communities bred “defeatism at the local level,” leaving “Paris...not only comparable to New York and Washington, as was London, but also to Chicago in transport, Detroit and Cincinnati in manufacturing and Boston in letters and education.”

The central quality of Paris in France is as unusual as it is impressive, and its qualitative sources and consequences are telling. Wealth attracts wealth, talent attracts talent, and power attracts power. Nineteenth-century Paris acted as a magnet to the French much as it did when Louis XIV held court at Versailles, and with much the same economic and political by-products.

Social revolution in England secured effective power in the hands of a relatively broad and representative group of businessmen. The outcome in France was not that clear cut. The Revolution first upset and later ended the process that Barrington Moore calls the “feudalization of the bourgeoisie,” which was pronounced and especially debilitating in the latter part of the eighteenth century. It did not end aristocratic rule in France, for an aristocracy centered in Court and on the land was replaced by one whose wealth and power came from finance, and which probably had more influence over the state than its noble predecessors. Especially after 1830, the power to initiate or to obstruct economic and social change was in the hands of the *haute bourgeoisie* — even, or perhaps particularly, when the state had a strong leader (as with Napoleon III). The structure of power in France was very top heavy, by comparison with the relatively more even dispersion of power in Britain; but the Revolution had seen to it that the *haut* was also *bourgeois*. Germany was to be like neither Britain nor France.

Germany industrialized rapidly, but without a social revolution. The two periods in which basic social changes seemed most likely to wrest Germany loose from feudal social and political institutions — during and immediately after the Napoleonic Wars, and again in the years after 1848 — were both abortive. Far from liberalizing Germany, both periods ultimately led to increased power for Prussia, and that to the consequence that liberal institutions in Germany, always stunted, finally perished. Less despite than because of her failure to develop the full panoply of “modern” political and social institutions, Germany created the most powerful and the most advanced of the European (including the British) economies before World War I. Persisting dynasticism and militarism in Germany combined with nineteenth-century technological possibilities to speed up, not slow down, industrialization — and to pave the way toward social disaster.

By 1914, Germany possessed close to half the industrial capacity of the Continent. But, as Brady has shown, the German industrial structure was lop-sided in favor of heavy industry (mining, metallurgy, chemicals, the engineering and electrical industries, and shipbuilding); she “grew the economic limbs of a giant only to be confined in space fit for a pigmy.”¹³ The confining space was more economic than geographic.

Given the structure and the capacity of German industry by the 1880s, she had to find rapidly growing export markets, at a time when she was far from alone in that need; or she could use her heavy industries increasingly for armaments and war, and use war to fulfill her various needs and aims. Before 1914, the German economy had been joined to a political and social machinery that, in spite of momentary departures, ground out domestic discipline and external conflict. She did not move that way entirely without intent. One of William II's most trusted servants, von Bulow, when he was appointed Chancellor in 1900, "insisted that every state department should be organized as if war were going to break out tomorrow," and he was fond of General von Moltke's notion that "permanent peace is a dream and not even a beautiful one. But war is an essential element of God's scheme in the world,"¹⁴

The relationships between Moltke and Bismarck, and between Bismarck and the Prussian Reich, were symbolic not only of much in Prussia, but also of the more general manner in which Prussia related to Germany. As such, it will be worthwhile for them to be considered for a moment. Moltke, who became chief of the Prussian General Staff in 1857, was the first German militarist to think systematically and argue persuasively in the terms of total war; as Germany was the first nation to attempt the total mobilization of her economy (and society) for war — and would be the first to attempt economic planning (which would be used as a model by the Soviet Union after 1928). Moltke's social meaning was monstrous, but he was not personally a monster so much as a brilliant and logical militarist. He was to German militarism what Friedrich List was to her economics and Bismarck to her politics. In all three cases, significance is to be found not so much in what was sought, as in the ability and the drive to achieve it. By comparison with Moltke, Bismarck was liberal in his views about war; his aims were those of a diplomat. But not even the Iron Chancellor could contain Moltke from pushing beyond Sedan (which signaled the triumph of Prussia over France); just as the constitutionalists of Prussia could not hold sway in 1866 against Bismarck, when they gave up their sole prerogative, the power over war credits. The radical Liebknecht would call the Reichstag of Imperial Germany "the fig leaf of absolutism." The Parliament of Prussia was a fig leaf covering a fig leaf. Taylor sees the Prussian liberals' acquiescence in the unconstitutional collection of war credits in 1866 as the perverse equivalent for Germany of England's Bill of Rights, or "the oath of the tennis court in the history of France."¹⁵

The Junkers ruled Prussia, and they would become the rulers of Germany, where they would be required, and be able, to govern "by nonparliamentary means, through the dynasty, the army, and the bureaucracy..." Most comfortable handling rye or drilling soldiers, they gained power over a highly modern industrial complex, which they used in a manner that, had it not been so deadly, would have been comical. In the decades after 1848, which began with apparent liberal tendencies both in Prussia and in the other states of Germany, the Prussians would gain the requisite cooperation — grudging or otherwise — of financiers, industrialists, merchants, farmers, and even of intellectuals, all of whom found ways or reasons to bend to or support policies that outside the German context they might have successfully opposed. It is the context of Germany that allowed what have been called the "good Germans" finally to support, or to be brushed aside by, the "bad Germans." Of the multitudinous aspects of that context, we may now select a few for closer examination.

There were many conditions and developments that eased the way for Prussian power in and over Germany, and three in particular around which many more cluster. First, Prussia never relaxed in her attempts to gain control over her own destiny, whether in the eighteenth or nineteenth century. She was supported not only by a vigorous landed aristocracy that offered up body and spirit in this effort, but also by what must be called good fortune — e.g., when the fabulous potential of the Rhineland was placed under her control by the Peace of Vienna. Second, by comparison with the Junkers of Prussia, other German regions and groups were weak in impulse and indecisive in direction — whether we speak of farmers, industrialists, or intellectuals — and over time they found both negative and positive reasons for accepting the Prussian mode. Starting from a position of economic and military strength, especially after 1815, Prussia had the power to act creatively (as in the Maassen Tariff of 1818, and later with the *Zollverein*), destructively (as in the Austrian war), and finally to find ways to bring conflicting groups into

a larger harmony (as in the anti-Socialist Act of 1878, and the Tariff of 1879). Third, the objective geographic, economic, and political conditions within which the German states (and later the Reich) could and had to develop interacted to make attractive and compelling those controlled kinds of economic and political developments that meshed well with the militarism of Prussia.

The Treaty of Westphalia froze Germany into a patchwork of over three hundred, mostly petty, states, and in doing so served well the desire of those who wished a weak Central Europe. The first major thaw came when Frederick the Great set his life upon creating a strong and unified Prussian State out of his scattered domains. On the heels of this, directly or indirectly, the French Revolution had the effect of reducing the number of German states to thirty-eight, with Prussia standing among them as a giant, in population, economic strength, and military and political ambition.

The winds of liberalism were blown through Germany by the French Revolution, especially in the Free Cities, the Rhineland, and in the South, and they were welcomed by many where they blew. But what was welcomed by some was hated by others, and would be used as a pretext for xenophobic causes throughout subsequent German history. In Germany, revolutionary impulses could almost always be identified with military defeat, or unhealthy alien influence, should the occasion to do so arise. When the occasion did arise, or was manufactured, Prussia would normally be found in the lead, but it was not without followers. In speaking of the militaristic and aggressive bent of Prussia, and its ultimate domination of Germany, Veblen observed

there was not much of anything available in the way of public sentiment and national aspiration in these non-Prussian states, else than a dilute form of the same thing. Their earlier experience had run along the same general lines, except for a certain lack of success attending their princely policies...It is not as if the Prussian system had been imposed on an English-speaking people, e.g., with inbred notions of popular autonomy and private initiative.¹⁶

Within Prussia itself, and especially in the Rhenish territories, there were strong liberal tendencies before, and even more so, after 1815; and there was a sharp differentiation to be made between the Prussian civil bureaucracy and the military staff. If the former had a viewpoint, it was well-symbolized by the term often used to characterize it (sometimes derisively, sometimes approvingly): Smithianismus. At that time, the Junker farmers were also free traders. From all this came the Tariff of 1818, and later the *Zollverein*.

The Maassen Tariff of 1818, which has rightly been called the first “scientific” tariff, created a free trade area within the Prussian states and, along with its other features, was the direct precursor of the *Zollverein* of 1834, which aligned Prussia with a large (and subsequently growing) number of other German States. By 1866-67, all of what would be Imperial Germany belonged. (In its principal respects, the *Zollverein* is the historical antecedent of the present-day Common Market.)

The Tariff of 1818 set out to free up trade within Prussia, to eliminate tolls on raw materials, to gain revenues through tolls on “colonial products” (sugar and coffee, in particular) and on foreign goods in transit, and to expose Prussian enterprise to competition. The ten percent *ad valorem* tax on imported manufactures offered much more in the way of competition than of protection. The major trade problem remaining for Prussia was the geographic separation of East and West Prussia. It was this that was taken care of by the *Zollverein*. But the *Zollverein* did more than remove geographic obstacles within the Prussian hegemony. In enlarging the German market for all member states, it beneficially affected both the quantitative and the qualitative productive patterns of Germany; and it also made the railroad both realistic and compelling. The first railroad in Germany was built in 1835. The “railway era” took place in the 1840s, and along with it the classic pattern of growth and interaction of related industries took shape — in mining, metallurgy, machinery, and the transportation industries themselves, and with secondary stimulating effects in light industry, finance, and trade.

These developments realized a further Prussian dream: in becoming the treaty-making agent with other powers for the *Zollverein*, Prussia had incontestably joined the Great Powers.

In the vital area of finance, the restrictive tendencies of the Prussian State led to developments in banking, and closely related developments in industry, that were no part of their design, but that were central to German economic development. An astute student of Prussian and German financial history Richard Tilly, after discussing the success of the Royal Bank of Prussia (and later of the Prussian Bank) in holding a monopoly of note issue — i.e., by preventing the growth of private banks of issue — goes on to reveal how private bankers developed a new and powerful banking institution: the “mixed bank” which combined commercial and investment functions. The private bankers did this by themselves directly or indirectly organizing new industrial enterprises. They used their own credit standing as a means of attracting otherwise reluctant savings, and funded commercial credit in order that it be convertible into long-term investments. As mentioned earlier, the English country banks — which provided commercial credit only — suited Britain’s needs adequately in its early industrial period because of the low capital-output ratio of the technology of that time; but the timing and the pattern of German industrialization required substantially more in the way of long-term investment funds. This was able to be provided because the private banks, unable to issue bank notes, relied on money substitutes (bills of exchange, overdrafts and the like) which in addition to creating credit in an atmosphere of scarce savings, had the unplanned effect of providing what might otherwise have been quite unavailable long-term capital. In Tilly’s summary,

Bills and Acceptances were much less likely to involve sudden and unforeseen demands on bankers’ resources than were the promissory notes payable at sight which were used by other banking systems. This went well with lending and investment policies which could — and did — involve substantial accumulations of relatively illiquid assets. One might therefore conclude that the Prussian government’s policies contributed — albeit unwittingly — to an institutional development which was on other grounds congenial to German development needs.¹⁷

It must be added that, in addition to the ability of German industry thus to be financed, the pattern that came out of her mixed banking was one that brought industry and finance into a tight and strong weave. This, in turn, would have substantial relevance to the growth of monopoly, cartels, and coordinated state policies.

The Prussian thirst for power and glory (and later, with the Junker farmers, for economic protection) sometimes took Prussia along unintended lines (as with banking), and sometimes along unwanted lines (as in the creation of a German nation); but there was in Prussia, as there was not in the other German states, a persistent and strong set of aims. Prussia and her Junkers knew what they wanted, and had few scruples about the means of attaining it; Bavarians, Hanoverians, Lubeckers were not of a single mind, either as political units, or as political units containing economic and social aims around which agreement could be gained.

The Prussians came from an older tradition, and were determined to use force if necessary to adapt an emerging world to their older tradition. What might be called the *bourgeoisie* of the German states (including Prussia) were desirous of leaving the past behind, but lacked a forceful view of their present and future. Veblen remarks’, that “in the Fatherland the commercial and industrial classes [were] called on to play their part without time to learn their lines.”

If the merchants and industrialists in the non-Prussian territories we add princes and farmers, the absence of a clear picture of how politics should combine with military and economic policies is even more evident. The farmers of the South and the West, for example, growers of meat and dairy products, fruits, and wheat, had little in common with the rye growers east of the Elbe River — whether we think of patterns of land utilization and tenure, labor requirements, markets, or appropriate tariff policy. Yet, by the last quarter of the nineteenth century, they would be part of a Solidarity Bloc, organized, inspired, and run by the Junkers.

The merchants and industrialists, intimidated and also impressed by Prussian political power and military success, would leave economic liberalism — which their British counterparts had fought for successfully — to others; they would find that economic man and nation alist man could live together profitably and even, for some, enthusiastically. Some of this can be explained by the intensity of the “social question” in Germany, both before and after 1871; some can be explained, as suggested earlier, by the resource problems facing Germany. Bringing together the various strains in Germany, and exacerbating them, was the depression that began in Germany, as elsewhere, in 1873. Within a decade, new legislation and working coalitions between hitherto combative groups would take Germany to a point of no return.

The “social question” was not confined to Germany; we have seen that the British and the French (as all industrializing countries) faced worker unrest as old ways of life were upset and the new ways brought at least temporary misery. In Germany the question was more pronounced than in France and Britain, for the pace of industrial change (especially after 1840) was more rapid there, and the society that was changing contained in it still more traditional elements in the nineteenth century than was true in France and England. Relative to England and even to France, Germany had been quiescent since the seventeenth century.

Thus, when industrialization began to take hold in Germany it was accompanied by abrupt changes that were devastating to those in agriculture and industry who either found themselves facing fierce competition (as in the case of small farmers or craftsmen), or working in factories without protection, under rapacious entrepreneurs. Both before and after 1848, the various states of Germany — especially the Rhenish and Silesian states of Prussia — were racked by riots, unrest, and emigration. (From Germany as a whole, between two and three million people emigrated between 1815 and 1870, and there was considerable internal migration from East to West Germany in the same period, as dispossessed peasants sought work in factories — an unskilled and docile labor force for German industry.)

As early as 1828, complaints were voiced by a Prussian general about the physical inadequacies of army recruits from the industrial districts of the Rhineland. The Silesian weavers’ riots in the 1840s are now legendary. Bad as the conditions of the factory workers in England were in 1844, as Engels has described them, Henderson asserts that they were worse in Germany, and reminds us of Macaulay’s characterization of the German workers as “degenerate dwarfs,” from whom no effective competition need be feared. For the smaller farmer, the craftsman, and the growing numbers of factory workers, the Germany of the years after 1815 were more often than not years of distress, poverty, unemployment, poor housing, and sickness (made worse by several epidemics of cholera and smallpox).

The growth of labor and even of socialist agitation up to 1848 was followed by repression after the upheaval of that year; but the conditions of Germany were such as to require systematic and persistent repression, for which Prussia would be the tutor. Again in the 1860s, largely under the guidance of Ferdinand Lassalle, labor and socialist strength began to rise, and (despite Lassalle’s death in a duel in 1864) this continued into the 1870s, heightened by the depression. By 1877, despite all, the Socialists were able to elect twelve of their representatives to the Reichstag, and to poll over half a million votes. In 1878, Bismarck’s anti-Socialist law was passed by a frightened and angry Reichstag. It suppressed fifty socialist newspapers while outlawing the Socialist party and prohibiting its political activities. In 1881, Bismarck attempted to woo the workers away from radical or even reformist doctrines with his social insurance schemes, the first of their kind, which ultimately provided against sickness, accidents, and old age. After 1890, the political restrictions against the Socialists were relaxed; by 1910 they were the largest single party in Germany and the largest socialist party in the world.

The opposition to socialism and trade unionism mixed in a curious way in Germany with the growth of a strong and restrictive state, encouraged both by those who feared the socialists and by the socialists themselves. The steady rise to electoral power of the socialists did not bring comfortable conditions to the workers, nor lessen their opposition to capitalist institutions. In the socialists’ own doctrine, the growth of state power was viewed with favor, as being anti-capitalist and as being a step toward that concentration of

power which would ease the transition to a socialist state. At the same time, socialist strength inspired uneasiness and fear amongst farmers and businessmen, a fear that was shared and made the most of by the Junker leaders. The Prussian ideology, if we may call it that, was quite naturally for them a mixture of negative attitudes toward foreigners, urbanism, democracy, intellectuals, workers, socialists, and of no little importance, Jews. In the tense atmosphere of Germany after 1873, this mixture, when put together with programs that promised security and profits to agricultural and business interests, would suffice to make the Prussians the leaders of a militaristic and disciplined Germany. The formation and success of the Solidarity Bloc was a critical stage in that process, and it deserves some emphasis. It was mentioned earlier that the Junker farmers east of the Elbe River, as grain exporters, had long been free traders in their political outlook and efforts. They maintained this position until the mid-1870s, at which time the competition from the newly -opened and low-cost lands of (especially) the United States and Russia began to provide withering competition. This coincided with the industrial depression of the 1870s, which intensified the long-standing protectionist impulses of German industrialists (principally those in metals and textiles). Bismarck acted in this situation with his customary drive and ingenuity. Wishing both to increase state revenues and to find a conservative bloc in the Reichstag, Bismarck encouraged the formation of the "Solidarity Block," the first of whose fruits was the Tariff of 1879. That tariff, which welded agriculture and industry together in a protectionist club, was relatively low; but in 1885 and again in 1887 the rates rose, and to very high levels. Germany was neither the first nor the last to achieve this kind of protectionist cooperation between industry and agriculture. What was unique about her own development, as Gerschenkron has pointed out, was that

in the German setting the establishment of the solidarity bloc meant a perpetuation of the feudal element in German society through the preservation of the traditional economic basis of the Junkers. There are few historical events to which an equally disastrous effect on the destinies of German democracy can be ascribed.¹⁸

As he further points out, "the compromise between iron and rye" had to be pursued into further compromises, between rye and pigs, and iron and machinery. Continuous hard bargaining was essential and pursued, and the bargaining took place through the essentially Prussian state machinery.

We have yet to comment on the special quality of German industrialization, the quality that combined the most advanced kind of technology with what were then the most monopolistic forms of industrial organization. Part of the explanation for this combination rests upon the very close connections between industrial growth and financial initiation and control, a pattern that made for many communities of interest and control between separate firms, and that eased the way toward collusion and ultimate cartelization. The latter was carried first and further in Germany than elsewhere in the period up to 1914. But this institutional development does not shed much light on Germany's technological advances. For that we must look to the interaction of two characteristics of Germany's situation: 1) she came late in the industrialization race, and thus was able and required to adopt the most advanced technology to "catch up," without the need to consider sunk costs in outmoded industrial equipment; and 2) Germany has a particular kind of resource problem. Prussian rule resolved both issues.

Germany was rich in lignite (or brown coal), in potash, forests, and in her western and southern agricultural resources. Until 1871 (and the annexation of Lorraine), she was poor in iron ore (except in Upper Silesia), and in other industrial raw materials. She possessed a few adequate supplies, if any, of non-ferrous minerals, petroleum, wool, cotton, or rubber. As Brady wrote, "no other major industrial country has developed a large-scale heavy industry with the raw materials under its own political and economic control forming so limited and narrow a base." On top of this, Germany's precious coal and iron resources were located on her periphery, intensifying her already xenophobic view of her neighbors.

Germany is the land of *ersatz*. In the nineteenth century, beginning in agriculture with von Liebig, Germany combined science with technology to make the most of her limited resources. One consequence was that she became the leader of the chemical industry, and of the application of electricity to industrial

uses; another was that her industrial production, to economize and synthesize raw materials, located in what have been called agglutinative patterns — coal, coke, coal-tar derivatives, chemicals, iron and steel, and machinery industries placed together in ways that allowed rapid combinations and transfers of materials from one process to another. This in turn encouraged and required cooperation between separate firms and industries and facilitated monopolistic and cartelizing patterns. Their peripheral location, their military potential, and their organizational patterns all encouraged and required the close cooperation of the Reich, which was duly provided.

The pattern of industry just described was the simultaneous solution for Germany's resource problems, its desire to industrialize rapidly and with competitive strength, and its desire to build a strong navy, armaments, and explosives industry. The disproportionate emphasis on heavy industry made for a precariously-poised economy, which needed the utmost in guidance, control, and discipline. Such qualities were especially needed after the emergence of high protectionism, and not less so in the context of a strong socialist movement. The latter's success would imply, among other things, lower tariffs, higher real wages, and a structure of production ultimately geared more to consumer than to military needs. That the socialists were also urban, led by intellectuals (often Jews), thought of as atheistic, and internationalist in outlook, was a source of hate and even terror for many Germans. The Prussian style was attractive, by comparison, most especially in the context of external economic and political tension.

As the twentieth century opened, the principal European powers found themselves in deepening and widening patterns of economic and territorial conflict that led to a justifiable apprehension that war was on its way. Competition for markets, for colonies, for raw materials, and for investment possibilities combined with the general instability of the lesser powers of the continent to exacerbate longstanding international hard feelings, to promote a race toward qualitative and quantitative superiority in land and maritime supremacy, and to bring on war. To single out Germany as the culprit in that process, or Prussia in Germany, is as mistaken as it is common. For many, if also for a minority, life in pre-war Europe was pleasant and carried on with civility, and that was also true in Germany — and in Prussia. But, as Simon has said,

public life in Germany was most seriously and disastrously out of joint. To the extent that Germany did produce more than its share of confused and flabby ideas, this was not primarily the consequence of any streak in the "German character" (whatever that may mean) but rather the result of an objective situation which could easily drive any rational thinker or reformer to despair, to escape, or to the construction of irrelevant or even internally inconsistent proposals. Still more important, it was the political and social structure of Germany that rendered patriotic enthusiasm and irrationalist tendencies so strong and so dangerous — and so conspicuous to the outside world and to posterity."¹⁹

France and Great Britain were also capable of high patriotism, of irrational and internally inconsistent proposals, and of jealous moves in the international arena. It was an Englishman, after all, who in 1897 proposed that "If Germany were extinguished tomorrow, the day after tomorrow there is not an Englishman in the world who would not be the richer. Nations have fought for years over a city or a right of succession; must they not fight for two hundred and fifty million pounds of yearly commerce?"²⁰ In such a world, Chancellor von Bülow's desire to be on the ready for war seems something less than a mystery; and the ability of the militaristic Prussians to rise to power in Germany — considering the alternatives — more a tragedy than a solipsistic madness.

Conclusion

Much work and many volumes will be needed if we are to understand the relationship of the state to economic development, but at least one thing should be clear: The heuristic convenience of the abstract term "state" should not mislead us into believing that there is some entity of that name with an existence separate and independent from the society of which it is a part, or with a meaning adequately inferred from laws, statutes, regulations and publicized actions.

The state played a role in Great Britain's economic development as important as that played in France and Germany, even though surface appearances would suggest otherwise. What was different in the three cases did not revolve around the importance or otherwise of the state; the differences were in the strength and aims of the business classes, and in the temporal and social contexts within which these aims were assisted and pursued.

In the mid-nineteenth century, businessmen in Great Britain were faced with less competition for power and policy-making than anywhere else; they were the residuary legatees and active carriers of a long tradition of middle-class values and institutions. By comparison with any European "establishment" the British were economic men *par excellence*, and they both created and rode the wave of economic leadership in the world — for a time. To do so, they had to ride roughshod over many millions of their compatriots who were not middle class, in income, function, or outlook. A few were very rich, but most were very poor, and to be put or kept in their places required implicit or explicit force. What was provided for Ireland in 1833 with the Coercion Bill — explicit suppression of public meetings and the easy use of martial law — could be accomplished in England by the removal of earlier protections. Both required a strong state. Those who ruled Great Britain saw no contradiction whatsoever — nor was there one — between the explicit use of state power away from home, and the lightening of explicit state intervention in Britain itself. Different conditions, times, and places called for different means to reach the same ends. During most of the nineteenth century, the power of British businessmen — like that of their navy — was so great that its use seldom had to be overt. By World War I the state's activities had become many and obvious (as also had the navy's); in both cases the show of strength was a sign of weakness.

The French and German experiences were both different from the British. On the continent the state would over time typically build, own, subsidize, regulate, initiate, suppress, and protect in virtually every aspect of economic activity — in mining, industry, banking, agriculture, transportation, trade, and labor. That is, and unlike Great Britain, the obvious aspects of mercantilism were never broken with more than briefly and partially. The reasons for the obvious strength of the state in France and Germany were diverse, but the two countries were at one in their need of explicit state intervention if their economies were to advance at a tolerable rate — where "tolerable" was often defined in invidious terms. From the economic historian's viewpoint, the principal difference between France and Germany is that in the former national industrial development was infrequently a high priority, whereas in Germany it came to be so -and not least because it was a prime requisite of the military strength and perfervid nationalism that the Junkers bequeathed to the German people.

All this suggests that the "state" moves as the changing power complex in society requires, allows, or directs it to move. It does so with leads and lags. When the state leads the process of social change it does so because there are men with the will and the power to refine existing institutions or to build new ones. They may represent rising new groups and new sources of power, or sophisticated men from extant structure. When the state lags, it is because change is taking place away from the centers of power, as new men arise on the periphery. In such circumstances, if the issues become great, the new men may be crushed, or they may triumph and occupy the halls of the state. As all this goes on, new sources both of support and of opposition are generated in sectors of society that include but also extend beyond the sector responsible for initiating or holding back change.

The problem of relating the state to economic development thus becomes part of the much larger problem of understanding the process of social change, and it raises serious methodological questions for those who would attempt it. Among the most important of these is that of broadening the analytical focus enough to include what is relevant without going so far as to render the materials fuzzy. The potential risks involved in that process do not seem greater than the established dangers of studies that achieve sterile exactitudes.

Footnotes

¹ *The State and the Industrial Revolution in Prussia, 1740–1870* (Liverpool, 1958), pp. xiii–xiv

² J. B. Brebner, “Laissez-faire and State Intervention in Nineteenth Century, Britain,” *Journal of Economic History*, VIII (1948). Also, see Elie Halevy, *The Growth of Philosophic Radicalism* (London, 1928).

³ Paul Mantoux, *The Industrial Revolution in the Eighteenth Century* (London, 1928), p.92.

⁴ See Gerald S. Graham, *The Politics of Naval Supremacy* (Cambridge, 1965), especially Chapter IV, for a stimulating discussion of this point.

⁵ See Rondo Cameron, et al., *Banking in the Early Stages of Industrialization* (New York and London, 1967), for an extension of this perspective as regards Great Britain, France, Germany, Russia, and Japan. I have relied on Cameron for the remarks that follow.

⁶ G. D. H. Cole, *A Short History of the British Working-Class Movement. 1789–1947* (London, 1948), p. 123.

⁷ J. B. Brebner, *op. cit.* Louise

⁸ Alexander Gerschenkron, *Bread and Democracy in Germany* (Berkeley, 1943), pp. 23–24. Emphasis in original.

⁹ The similarities in this respect with the plantation owners of the American Southeast before 1860 are striking; but the American Southerners lost and the Prussians won the power they required.

¹⁰ *A History of Modern France. Volume 1: 1715–1799* (Baltimore, 1963), pp. 263–264. For a full and balanced account of the Revolution, see Cobban’s *The Social Interpretation of the French Revolution* (Cambridge, 1964).

¹¹ J. H. Clapham, *The Economic Development of France and Germany, 1815–1914* (Cambridge, 1951), p. 233.

¹² Charles P. Kindleberger, *Economic Growth in France and Britain, 1851–1950* (Cambridge, Mass., 1964), p. 254.

¹³ Robert A. Brady, “The Economic Impact of Imperial Germany: Industrial Policy,” in *The Tasks of Economic History* (Supplement No. 3 to the *Journal of Economic History*, 1943. See also the two associated papers on agricultural and commercial policy by Hans Rosenberg and Mary E. Townsend.

¹⁴ Quoted in Gerschenkron, *op. cit.*, p. 61.

¹⁵ A. J. P. Taylor, *The Course of German History* (London, 1961), p. 119.

¹⁶ Thorstein Veblen, *Imperial Germany and the Industrial Revolution* (New York, 1915), pp. 212–213.

¹⁷ Richard Tilly, “Germany, 1815–1870,” in Cameron, *op. cit.*, p. 182. Also see Tilly’s *Financial Institutions and Industrialization in the Rhineland, 1815–1870* (Madison, 1966).

¹⁸ Gerschenkron, *op. cit.*, p. 47.

¹⁹ W. M. Simon, *Germany: A Brief History* (New York, 1966), pp. 252–253.

²⁰ Quoted in R. J. S. Hoffmann, *Great Britain and the German Trade Rivalry, 1875–1914* (Philadelphia, 1933), p. 281.

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