policies and/or by refashioning industrial relations without circumventing the market. Such a combination of international liberalism and domestic intervention formed the nucleus of fordism as the postwar economic paradigm in the West. The two metropolitan experiments in this protofordist fashion were the New Deal in the United States and the "Blum experiment" in Popular Front France. Especially in industrial relations, the three small countries of Scandinavia --and Sweden among the three-- came closest to fordism during the 1930s.

During the decade, another group of countries innovated in a radically different way in that they circumvented the market, if not capitalism itself, both internationally and domestically. This response was mercantilism of a new type. Although the neomercantilist paradigm included fiscal innovation as well, its main innovative thrust rested with microeconomic regulation. In the metropolitan context, Germany, Italy, and Japan were the three representatives of neomercantilism, while the Soviet Union exercised it with a socialist twist. The experiments of the Balkan and some Latin American countries formed a typical small-state contribution to neomercantilism.

The replacement of classical liberalism with protectionism, protofordism, and neomercantilism amounted to a paradigmatic "revolution" in economic policy.[1] First, there was the erosion of the accepted problems and solutions as they were formulated by the hegemonic classical liberal paradigm. Second, protectionism, protofordism, and neomercantilism responded to the crisis of this paradigm with their alternative

[1] My source of inspiration with respect to this "revolution" in economic policy is Thomas S. Kuhn's work on "scientific revolutions" ([1962] 1970).

SMALL-STATE RESPONSES TO THE GREAT DEPRESSION, 1929-39: THE WHITE DOMINIONS, SCANDINAVIA, AND THE BALKANS

by

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A thesis submitted to

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"SMALL-STATE RESPONSES TO THE GREAT DEPRESSION, 1929-39:

THE WHITE DOMINIONS, SCANDINAVIA, AND THE BALKANS"

submitted by

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in partial fulfilment of the requirements

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Chair, Department of Sociology and Anthropology

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ABSTRACT

The main purpose of this dissertation is to account for small-state responses to the Great Depression of the 1930s. Occupying a distinctive position in the interstate system but not in the world economy, small states responded defensively to the crisis. They shaped their responses in relation to metropolitan responses to the same phenomenon. In the metropolitan context, the collapse of the classical-liberal economic paradigm paved the way for three alternative paradigms: protectionism, protofordism, and neomercantilism. These three paradigms also defined the range of variation in small-state responses.

Among the metropolitan states, the United Kingdom and France conformed to protectionism whereas the United States fashioned its economic policies along the protofordist lines. Neomercantilism held sway in Germany, Italy, Japan, and the Soviet Union. In the small-state context, this diversity was represented by the British White Dominions (Canada, Australia, and New Zealand), Scandinavia (Sweden, Denmark, and Norway), and the Balkans (Turkey, Bulgaria, Greece, Romania, and Yugoslavia). The Dominion economic policies were protectionist; the Scandinavian, protofordist; and the Balkan, neomercantilist. The divergence among the three groups of small states was most conspicuous in the cases of Canada, Sweden, and Turkey.

To account for response formation in the small-state context, I combine an intensive analysis of Canada, Sweden, and Turkey with an extensive analysis of their

regional counterparts and such metropolitan states as the United Kingdom, France, the United States, Germany, and Italy. Crucial to response formation in the three regions, I argue, were the imperial/metropolitan linkages, political regimes, and financial systems. The reason the Dominions gave a conservative, protectionist response to the crisis lay in the imperial/metropolitan linkages they had with the United Kingdom, their liberal-majoritarian regimes, and their commercially-oriented financial systems. What compelled/facilitated the protofordist innovation in Scandinavia were a corporatist regime-type, a financial system-type favouring industrial investment, and an extreme vulnerability to inter-metropolitan rivalries in Europe. The neomercantilist shift in the Balkan countries had to do largely with their authoritarian regimes and German metropolitan linkages. An industrially-oriented financial system was only a necessary component of this shift.

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CHAPTER 1

INTRODUCTION: SMALL STATES, LARGE PROCESSES

With the Great Crash of 1929, the classical liberal economic paradigm began to unravel. When responding to the world economic crisis, country after country jettisoned this or that part of the paradigm. In fact, no part of the paradigm, including the gold standard, free trade, "self-regulating" market, and procyclical financial orthodoxy, came out of the 1930s unscathed.

The unravelling of classical economic liberalism was, however, uneven across countries. Some states stuck with at least parts of monetary and fiscal orthodoxy while abandoning the gold standard and free trade, and intervening in the domestic market on a selective basis. This response formed a protectionist alternative to, and the safest departure from, the old liberal paradigm. It was also the least innovative of the three alternative economic paradigms that emerged during the Great Depression of the 1930s. Among the large countries, protectionism held sway in the United Kingdom and in France except for the brief Popular Front period. Among the small countries, a typical protectionist response came from the British White Dominions, namely Canada, Australia, and New Zealand.

Although all countries went off the gold standard for all intents and purposes, a few continued or came to defend free trade. Those countries adhering to free trade broke new ground domestically, by experimenting with countercyclical macroeconomic

policies and/or by refashioning industrial relations without circumventing the market. Such a combination of international liberalism and domestic intervention formed the nucleus of fordism as the postwar economic paradigm in the West. The two metropolitan experiments in this protofordist fashion were the New Deal in the United States and the "Blum experiment" in Popular Front France. Especially in industrial relations, the three small countries of Scandinavia --and Sweden among the three-- came closest to fordism during the 1930s.

During the decade, another group of countries innovated in a radically different way in that they circumvented the market, if not capitalism itself, both internationally and domestically. This response was mercantilism of a new type. Although the neomercantilist paradigm included fiscal innovation as well, its main innovative thrust rested with microeconomic regulation. In the metropolitan context, Germany, Italy, and Japan were the three representatives of neomercantilism, while the Soviet Union exercised it with a socialist twist. The experiments of the Balkan and some Latin American countries formed a typical small-state contribution to neomercantilism.

The replacement of classical liberalism with protectionism, protofordism, and neomercantilism amounted to a paradigmatic "revolution" in economic policy.[1] First, there was the erosion of the accepted problems and solutions as they were formulated by the hegemonic classical liberal paradigm. Second, protectionism, protofordism, and neomercantilism responded to the crisis of this paradigm with their alternative

[1] My source of inspiration with respect to this "revolution" in economic policy is Thomas S. Kuhn's work on "scientific revolutions" ([1962] 1970).

definitions of problems and solutions. Finally, the three alternative paradigms waged a "chaotic" conflict in the 1930s, which would result in the postwar hegemony of fordism in the West and of Soviet neomercantilism in the East.

This trichotomy defined the range of variation in responses to the world economic crisis (and the associated crisis of the classical liberal paradigm) both across the large, metropolitan states and across the small states. I approach the trichotomy primarily from the standpoint of those small states in the British White Dominions, Scandinavia, and the Balkans, particularly Canada, Sweden, and Turkey. In their regional context, these three countries were "ideal-typically" representative of protectionism, protofordism, and neomercantilism, respectively.

The common string of Dominion protectionism, Scandinavian protofordism, and Balkan neomercantilism was that they were defensive in character. The states which developed these policies were responding not only to the crisis but also to the "significant" metropolitan responses. Such a strategy of defensive accommodation was in fact what distinguished the small-state responses from those of the metropolitan countries. It is in this sense that metropolitan responses to the crisis form part of the explanation of the small-state responses.

In this dissertation, I approach the economic responses of the Dominion, Scandinavian, and Balkan states to the crisis from a world-historical and geo-social perspective. The world-historical context of the 1930s had an added importance for small states. It involved the Depression, subsequent collapse of the international economic institutions, strains and fissures in the interstate system, and the polymor-

phous responses to all of them from the metropolitan countries. The universalism of the world-historical context was, however, tempered with the particularism shaped by the geo-social context: imperial/metropolitan linkages, political regime, and financial system.

It is my contention that much of the answer to how the three groups of states responded to the world economic crisis lies in the geo-social context in which they were embedded. With their British imperial and metropolitan linkage, liberal political regime, and commercially-based financial system, Canada and the two Antipodean Dominions converged in economic policy, especially in financial orthodoxy and industrial protection. This was despite the fact that Canada differed greatly from its Antipodean counterparts in terms of extent of foreign direct investment, working-class strength, and ethnic composition, to name only a few.

Within the geo-social configuration of Scandinavia, there were also a number of differences --mainly between Sweden, on the one hand, and Denmark and Norway, on the other-- relating to, say, levels of industrial development and concentration, and position in the world economy. Yet the three Scandinavian countries came up with similar economic policies, especially in agriculture and industry, by striking cross-class and cross-sectoral compromises. What they had in common were an indigenous imperial tradition, a corporatist political regime, and an industrially-based financial system, all of which contributed greatly to the strength and efficacy of the social democratic labour movements. These factors, combined with the vulnerability of Scandinavia to a rekindled rivalry between the conservative and revisionist

metropolitan powers, largely account for those compromises between the domestic actors.

Countries in the Balkan geo-social configuration shared an imperial, namely Ottoman, heritage and an authoritarian polity. Germany constituted the common denominator of these countries' metropolitan linkages. Emerging to industrialism, they adopted an investment-oriented banking system. Although Turkey differed from its Balkan counterparts in the European expanse in extra geo-social terms, e.g. industrial background, foreign investment, and capitalist-class strength, it converged with the latter in economic policy, most conspicuously in autarky and industrial import substitution.

What follows is an elaboration of the theoretical and methodological framework of the dissertation. I first discuss alternative explanations of the economic policy responses to the Great Depression. I then develop a world-historical and geo-social model of response formation to apply for the Dominion, Scandinavian, and Balkan states. The last section outlines the dissertation.

ALTERNATIVE EXPLANATIONS OF THE RESPONSES TO THE CRISIS

In this section, I review five main approaches to the issue. The first approach highlights the role of macroeconomic theory and economic ideas in general; the second, state structures and policy heritage; the third, working-class strength; the fourth, position in the world economy; and the last, linkages between the domestic

economy and the international markets. I critique these approaches from the point of view of policy conception, explanation, and --where applicable-- case selection. My conclusion is that neither individually nor in combination do the variables highlighted provide a full explanation of response formation across the nations, large or small.

Economic Ideas: Theory and Ideology

In an otherwise historical study of economics and policy, Donald Winch sees the fiscal orthodoxy of the 1929-31 Labour government in the United Kingdom as an outcome of the "general state of economic understanding" in the pre-General Theory era.[2] The theoretical failure of classical economics to establish the connections between government budgets and the general economy, he further reasons, formed the "underlying cause of the log-jam" to fiscal innovation in the United Kingdom before 1936.

Before Keynes published his General Theory in 1936, however, there were at least three foreign governments which experimented with countercyclical demand management: the Nazis in Germany, their Japanese counterparts, and the Social Democrats in Sweden. The Democratic administration in the United States had already "tolerated" a number of deficit budgets to finance public works, whereas the Popular Front government in France was about to launch the "purchasing power" policy. And many other governments, including Canada's, were deficit-spending "out of necessity".

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[2] Winch (1969, esp. pp. 94, 117, 141, 177-89).

The fiscal "revolution" of the 1930s came first as policy and then as "general theory".

While preceding Keynesianism, the innovation in fiscal policy was subsequent to a rich intellectual tradition known as proto-Keynesianism. There was a rationale for demand stimulus in such diverse theorizations as Keynes' earlier work, the "social credit" theory of Major Douglas (a compatriot of Keynes), various proto-Keynesian schools (including the Stockholm School of Economics in Sweden), and the Marxian conception of underconsumption. Governments in the 1930s could build on this theoretical tradition or simply improvise for experimenting with demand stimulus. A few of them did, the rest did not. To put it differently, neither did the sheer presence of proto-Keynesian theories guarantee innovation in fiscal policy, nor did such an innovation have to rely on those theories.

Unlike the "general state" of economic theory, the nationally-specific configurations of economic ideology formed a "plausible" obstacle to policy innovation during the 1930s. As the ideological imprint of the past, national economic discourses have always had a conventional bias in matters of policy. At the institutional level, this bias has been expressed through the "historically-stable", national policy paradigms or models.[3] Two notable instances of such paradigms were UK liberalism (involving financial orthodoxy, an arm's-length government, and free trade) and French etatism whose distinguishing feature was a **dirigiste** mode of intervention.[4]

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[3] For the conception of national policy paradigms or models, see Allen (1989); Pekkarinen (1989).

[4] On patterns of economic regulation in the United Kingdom, France, and some other Western European countries, see Shonfield ([1965] 1969, chs. 5-9).

The problem with the national economic paradigms (including discourses) during the Great Depression was that they themselves became the subject of change. Even in the UK case, where there was no radical break with the past, the (liberal) national paradigm eroded in its every aspect other than fiscal orthodoxy which was saved with the combined efforts of the City, Treasury, and the Conservative and Labour parties. To what extent, then, did the conventional attachment of these institutions account for the United Kingdom's fiscal posture in the 1930s? With this question, we are already in the sphere of institutions in which the role of ideology is determined.

Civil Service, Statesmen, and Policy Heritage

Margaret Weir and Theda Skocpol provide an institutionalist analysis of the UK fiscal orthodoxy as part of the varying responses to the Great Depression. In making sense of what they call "the delay in Keynesianism", "commercial Keynesianism", and "social Keynesianism" in the United Kingdom, the United States, and Sweden, respectively, they give primacy to the "structural features of states and the preexisting legacies of public policies".[5]

According to this account, the key to why UK governments avoided deficit

[5] Weir & Skocpol (1985). Hugh Heclo's work (1974, esp. chs. 1, 6) on social policy in the United Kingdom and Sweden is exemplary of the state-centred institutionalist tradition on which Weir and Skocpol build. For recent expositions of the state-centred approach to social policy, see Orloff (1985, chs. 1, 5, 10); Skocpol (1992, pp. 11-60); Skocpol & Amenta (1986).

spending in the 1930s lay in the bureaucratic impermeability of the UK Treasury to new policy proposals. Due to its central control over the entire civil service, the Treasury is considered to have been administratively capable of defending its fiscal orthodoxy and of imposing it on the elected bodies. In the United States, by contrast, there was no such obstacle to policy innovation given the fragmented character of the federal civil service.[6] Yet this same bureaucratic fragmentation, Weir and Skocpol argue, was responsible for the truncation of the New Deal at "commercial Keynesianism". Unlike the United States, Sweden came to have a "social Keynesianism" with a civil service which was similar to its UK counterpart in terms of centralization. Why? The answer was found in the peculiarity of Sweden's historically-rooted institutions "for bringing experts, bureaucrats, and political representatives together for sustained planning of public policies".[7]

Weir and Skocpol make a point by showing that the impact of economic ideology on policy is institutionally mediated. The problem is, however, the very institutionalist approach they employ to explain the fiscal stance of the three countries in question. Notwithstanding their polity-centred rhetoric, Weir and Skocpol always consider the state, civil service in particular, as their **deus ex machina**: the United Kingdom had a "delay" in Keynesianism because its civil service was rigid and centralized; the United States, a "commercial" Keynesianism given the openness and

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[6] See also Weir (1989) for a UK-US comparison.

[7] Weir & Skocpol (1985, p. 129). Lars Jonung (1981, pp. 309-10) makes a similar argument in accounting for the differential influence of the economics profession on decision-making processes across Sweden and the United States.

fragmentation of its civil service: and Sweden, a "social" one because its civil service was open but centralized. This is a narrow, bureaucratic institutionalism.[8]

Bradford Lee offers the administrative concerns of statesmen as the alternative to the bureaucratic structures of states in explaining fiscal policy during the 1930s. Despite situational necessity and intellectual innovation at the time, he claims, no proto-Keynesian "revolution" occurred in the French, UK, and US fiscal policies.[9] What precluded such a "revolution" was nothing other than the policy-makers' fear of doing harm to state autonomy in case of public borrowing. They reasoned that expansionary fiscal policies through government bond issue would risk the autonomy of the state vis-a-vis the holders of those bonds, especially the business community. Thus, Lee concludes, balancing the budget appeared as the only safe option for policy-makers to save the balance between state and society.

The Weir-Skocpol and Lee theses can be criticized at three levels: policy conception, case selection, and policy explanation. To begin with, both theses are based on a very narrow conception of economic policy. In this conception, fiscal policy is put forth to the exclusion of monetary policy, as well as of policies relating to the "microeconomic" sphere. From such a truncated perspective, the range of

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[8] In their analysis of the differing business attitudes vis-a-vis state social policies in Canada and the United States during 1920-40, Ann Orloff and Eric Parker adopt a much broader version of institutionalism (1990). Compared with the US case, they observe, the Canadian business community put up a weak opposition to social policy initiatives due to, among other things, its historical reliance on the state. As well, the strong opposition of the US business community to social policies is related to its independent pattern of development.

[9] Lee (1989).

economic-policy debate and experience during the 1930s was confined to a fiscal dichotomy in the form of "choosing" between balanced and deficit budgets. It was not so. For example, the United Kingdom, which remained fiscally orthodox, had also other choices to make, such as between the gold standard and monetary management, between free trade and protection, and between an "arm's-length" mode of intervention and a more activist one.

An exclusively fiscal perspective can not capture the range of cross-national variation in responses to the Great Depression. When we take into account the extra-fiscal aspects of the Swedish, UK, US, and French responses, we fail to see the divergence Weir and Skocpol saw among the first three or the convergence Lee saw among the last three. Instead, we see protectionism in the French and UK responses, and protofordism in the Swedish and US (and, partly, French Popular Front) responses. After all, these four represent only those responses from industrialized capitalist democracies. As for the responses from industrialized but non-democratic countries, such as Germany and Japan, they took the lead not just in the proto-Keynesian (i.e., pre-1936) fiscal breakthrough but also in the paradigmatic shift to neomercantilism.

To what extent do civil service features or stately concerns account for fiscal policy? In the first place, we can mention at least four cases of loan-financed spending <u>for economic recovery</u>, which are contrary to Lee's argument that policy-makers stuck with the fiscal orthodoxy fearing the negative consequences of public borrowing for state autonomy: Japan (post-1932), Germany (post-1933), Sweden (1933-5), and the United States (post-1938). Were not policy-makers in these countries concerned with

state autonomy? If they were, why did they initiate programs of public borrowing? Germany and Japan experimented with what we may call "freelance Keynesianism" under fiscally conservative, organizationally centralized, and traditionally rigid bureaucracies. According to the Weir-Skocpol thesis, however, such bureaucratic features should have resulted in a UK-style fiscal retrenchment.

The case of Sweden itself is not a safe ground for a civil service-centred explanation. With the same centralized and open civil service, which is seen as the key to its "social Keynesianism" in the 1930s, Sweden had given an orthodox monetary and fiscal response to the depression of the early 1920s, which was more severe than the depression it experienced in the early 1930s. What changed in the meantime were, first, the world-historical context and, then, the political and economic climate of the country. In political terms, a major development was the coming to office of the Social Democratic Labour Party (SAP) with a stronger, though still minority, electoral base in 1932. Actually, the subsequent trajectory of the Swedish labour movement in general informed the working-class-strength thesis, which I discuss next.

Working-Class Strength: Political Mobilization

Drawing on the political trajectory of Scandinavia, Sweden in particular, the working-class-strength thesis offers a "social democratic" model of public policy formation. In this model, the cross-national variation in public policy is primarily a function of the varying strength of the labour movements at the union, party, and

government levels.[10] How does the model fare in explaining the economic policies of the Scandinavian, let alone other (semi-)industrialized, countries during the 1930s?

In order to make sense of Sweden's crisis-time innovation, proponents of the working-class-strength thesis emphasized the high levels of unionization and centralization under the Trade Union Confederation (LO), the consolidated position of the SAP as the labour's major political organization, the organic links between the SAP and LO, and the SAP's assumption of government responsibility following its electoral success in 1932.[11] In the Danish and Norwegian cases as well, parallel elements of a "strong" working class were there during the 1930s.

In all three cases, Social Democrats as governing parties struck crisis agreements with the Agrarians. These agreements themselves and the changes they signified in the Social Democratic and Agrarian party platforms were a major political breakthrough. Economically, however, only the Swedish agreement gave way to experimentation --namely, a modest program of demand stimulation beginning in 1933. As for the union wings of the Scandinavian labour movements, in Norway and Sweden, the central union confederations (LOs) concluded basic agreements with the employers' organizations, thus charting a new course in the field of labour market and industrial relations. Denmark was not an innovator in this field during the 1930s, partly

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[10] On the "social democratic" model of public (mainly social) policy formation, see Esping-Andersen (1987; 1989); Korpi (1980); Shalev (1983).

[11] Castles (1978, chs. 1, 3); Esping-Andersen (1985, chs. 2, 3, 7); Esping-Andersen & Friedland (1982); Korpi (1978, ch. 4; 1982; 1983, ch. 3); Martin (1973; 1975; 1979); Stephens (1979, ch. 5).

because the Danish unions and employers had been working within the framework of a basic agreement since 1899.

In the first place, the links between working-class strength and demand stimulus were tenuous at most. In Sweden, deficit-financed spending on public works, if not for countercyclical purposes, was first tried by the Liberals, whom the SAP succeeded in 1932. Among those social democratic, socialist, or labour parties which governed during the 1930s, only the SAP implemented a program of demand stimulus. The French Popular-Front coalition (involving the Socialist, Communist, and Radical parties) tried unsuccessfully to implement a similar program (the so-called "purchasing power" policy). The SPD in Weimar Germany and the Labour Party in the United Kingdom did not even try, thus causing lamentation among the proponents of the working-class-strength thesis.[12] More telling was the absence of fiscal experiment in Denmark, Norway, Australia, and New Zealand, the strength of whose working classes was comparable to Sweden's at the union, party, and government levels.

The strength of the working class mattered, however, in the area of labour market and industrial relations (not to mention, social policy). All three Scandinavian countries and the two Antipodean Dominions had an institutionalized system of labour relations, which they established either before or during the 1930s. Yet a strong labour movement was not necessary for such a system to be built. With one of the weakest labour movements in the industrialized world, the United States saw an advanced

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[12] See, e.g., Martin (1973, pp. 44-5; 1975, pp. 22-4); Stephens (1979, p. 145). In accounting for the fiscal conservatism of the UK Labour Party, Donald Winch emerges this time as an institutionalist (1989, pp. 118-24).

system of industrial relations under Roosevelt's New Deal.

In other policy areas, the governing working-class parties at the time did not make much difference. Some of them innovated, however, not by changing the existing policies of the countries they governed, but by changing their platforms to adjust to those policies. For example, the Swedish SAP, in addition to dropping the theme of socialization from its policy agenda, transformed itself from a party of free trade into one of protectionism and regulation in agriculture. Yet the working-class parties were not alone in adjusting to the predominant patterns of policy when governing. This type of innovation, too, cut across the party lines.

To conclude, economic policy did not vary consistently with working-class strength. In particular, countries with strong labour movements (at the union, party, and government levels) differed greatly in responses to the Great Depression of the 1930s. Where do we go from here, then? In the next subsection, I consider whether economic policy varied with the level of economic development, more specifically, with position in the world economy.

Position in the World Economy

The world-system perspective helps us identify three tiers in the (modern) world economy: the core, periphery and a residual semi-periphery.[13] Countries in the

[13] For a manifesto of the world-system perspective, see Wallerstein (1974a; particularly 1974b).

core export capital and mainly manufactured goods to, and import mainly raw materials from, those in the periphery. What do countries in the semi-periphery do? They relate to the core in a peripheral manner and to the periphery in a core-like manner.

By these criteria, four of the seven large, metropolitan countries during the 1930s (France, Germany, the United Kingdom, and the United States) belonged to the core. The remaining three (Italy, Japan, and the Soviet Union) belonged to the semi-periphery. Among the small, non-metropolitan countries of the Dominion, Scandinavian, and Balkan geo-social configurations, only Sweden had a core-like position in the world economy. Whereas the economies of Australia, Canada, Denmark, and Norway were semi-peripheral, those of New Zealand and all five Balkan countries (Bulgaria, Greece, Romania, Turkey, and Yugoslavia) were unambiguously peripheral. That is to say, of the three geo-social configurations, only one (the Balkans) had a homogeneous (peripheral) position in the world economy.

According to Immanuel M. Wallerstein, a leading world-system analyst, world economic crises are moments of opportunity for those countries in the peripheral and semi-peripheral layers to move in to an inner layer.[14] Regarding the Great Depression of the 1930s, he and other world-system analysts put a particular emphasis on the weakening ties between the outer layers and the core. Now the argument is that, while the core countries were occupied with putting their internal houses in order, Italy, Japan, and the Soviet Union tried to carve up a place in the core through neomercantil-

[14] Wallerstein (1980, ch. 5).

ism. Similarly, the Balkan and Latin American countries embarked upon import-substituting industrialization to have a better, i.e. semi-peripheral, position in the world economy.[15]

The disintegration of the world financial and commercial networks in the early 1930s was, indeed, a major factor in the rise of neomercantilism as a viable policy option including autarky and planning. It is also true that, in its both peripheral and semi-peripheral variants, neomercantilism served the national aspirations for "switching" to an inner layer in the world economy. Neomercantilism was not, however, an option restricted to countries in the periphery and semi-periphery. Germany, which was undisputably a core country, tried it more ambitiously than did any other country with the exception of the Soviet Union. Conversely, most peripheral and semi-peripheral countries did not try it, no matter how they strove for a better place in the world economy. In both cases, the choice had to be a political one.

As an expression of the level of economic development, position in the world economy had a necessary bearing only on fiscal policy. In order for countries to experiment with the countercyclical demand management, they had to have a certain level of industrialization and proletarianization. It was not a coincidence that those countries which produced such an experiment during the 1930s were in either the core

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[15] For a world-system explanation of the Southern European (especially Balkan) and Latin American experiments with import-substituting industrialization during the 1930s, see Arrighi (1985b); Cardoso & Faletto (1971/1979, ch. 4); Frank ([1967] 1969, ch. 3); Ranki (1985); Wallerstein (1985). Using a different terminology, Alexander Gerschenkron (1962) identifies a similar connection between neomercantilism and (semi-)peripheral position (economic backwardness).

or semi-periphery: Germany, Japan, Sweden, and the United States. The question, then, is: why only these four (or six if we include Popular Front France and post-1936 Italy) among many countries in the core and semi-periphery? This is intriguing also in view of the fact that the four diverged in national economic discourse, state structure, and working-class strength. The answer lies, according to Peter A. Gourevitch, in the domestic-group alignments in relation to international markets.

Domestic Economy-International Market Linkages

Gourevitch compares five countries (France, Germany, Sweden, the United Kingdom, and the United States) in their reactions to the crisis of the 1930s.[16] He identifies two policy alternatives which eventually got the upper hand: (a) "neo-orthodoxy" (protectionism) in France and the United Kingdom; and (b) demand stimulus in Germany, Sweden, and the United States. His argument is that behind each policy outcome there was a winning coalition which cut across, and bred divisions within, the sectors such as finance, industry, agriculture and the "labour". Particularly critical for coalition formation and policy choice in this explanation was the international position of the sub-sectors.[17]

First, let us reconstruct Gourevitch's policy coalitions. What underlay the shift

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[16] Gourevitch (1984; 1986, chs. 2, 4).

[17] In this regard, Gourevitch draws on James R. Kurth (1979a; 1979b), who argues that the political behaviour of the domestic industries varies with where they are in the international product cycle.

in US New Deal to demand stimulus was a coalition of subsidized agriculture, unionized labour, and internationally-oriented sections of business. Similarly, Sweden's demand stimulus coalition involved labour, agriculture, and sections of business (initially home-market industries, gradually export-oriented industries as well). The New Deal and Swedish experiments with demand stimulus were strongly tied to a change in the business component of the support coalitions from sheltered domestic industries to competitive export industries. In Nazi Germany, by contrast, the business component of the demand stimulus coalition was dominated by domestic industries which, together with weakened export industries, sought protection from international markets. Also included in the Nazi demand stimulus coalition were small farmers, as well as large farmers (Junkers), property owners, salaried personnel, and "nonunion" labour (the unemployed in particular).

In what ways, then, did France and the United Kingdom differ from the other three and converge with each other to decide on protectionist "neo-orthodoxy"? The United Kingdom took only an orthodox departure from orthodoxy, mainly because of its highly internationalized financial sector identified with the City, which led an anti-inflation coalition involving all but the labour. In France, a similar coalition, involving a small portion of the unionized labour (Catholic unions) as well, got the upper hand during the 1930s except for the Popular Front interlude of 1936-7. The Front's abortive experiment with demand stimulus had the support of the major unions, parts of the farming class, and the "Republican" bourgeoisie.

To conclude, demand stimulus was tried in those countries where labour and

farmers found a common ground with at least certain sections of business.[18] In those countries where there was no common ground between labour and farmers, let alone between these two and sections of business, protectionist "neo-orthodoxy" had the upper hand. The market orientation and performance of the main businesses proved to be decisive for both outcomes.

Contrary to Gourevitch's argument, the impact which domestic-group alignments had on fiscal policies during the 1930s was far from being definitive. It is true that, in the three Western democracies which experimented or intended to experiment with demand stimulus, there was a varying degree of **rapprochement** (formal or informal) between organized labour and independent farmers, on the one hand, and between organized labour and (mainly export-oriented) sections of business, on the other. Yet it is equally true that such a **rapprochement** took place also in some of those Western democracies whose fiscal posture remained orthodox. Cases in point are Europe's "small democracies" such as Denmark, Norway, Belgium, the Netherlands, and Switzerland.[19] The cross-class and cross-sectoral alignments that took place in democratic polities during the 1930s had their main impact on industrial relations, agricultural regulation, and foreign trade, rather than on fiscal policy.

As for Germany (and also Japan), we must question the very existence of a coalition pressing for, or formed around, demand stimulus. The fact that the Nazis'

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[18] See Gourevitch (1986, p. 130/tab. 4) for a schematic presentation of the demand stimulus and (neo-)orthodox coalitions.

[19] On domestic alignments and fiscal policies in these five countries during the 1930s, see Katzenstein (1985, ch. 4).

expansionary fiscal policies were beneficial to industries, agriculture, and the unemployed is not evidence of a cross-class and cross-sectoral alignment for or around those policies. Moreover, under the Nazis, neither workers nor farmers (nor even capitalists) were in a position to determine autonomously where their interests lay, let alone to fashion economic-policy alignments. The alignment of the depressed export industries with domestic industries and agriculture in general took place prior to the Nazi takeover in 1933 and, as Gourevitch himself mentions, was for protectionism.

Gourevitch elevates demand stimulus to a general policy posture just as he elevates domestic-group alignments to a privileged status in explaining demand stimulus experiments. By doing so, he can claim that Nazi Germany and Japan converged with Popular Front France, Social Democratic Sweden, and New Deal United States in their responses to the world economic crisis. On this ground, he disputes the relevance of political regimes for economic policies.[20] To quote him directly: "[...]since different political systems pursued the same policies, and similar political systems pursued different ones, there is no connection between the two and economic policies are polymorphous --anyone can take up any policy through any political system, so no linkages can be established."[21] Could France, Sweden, and the

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[20] In fact, Gourevitch is not alone in this regard: John A. Garraty (1973) argued for an economic-policy correspondence between the (early) New Deal United States and (early) Nazi Germany, whereas Ekkart Zimmermann and Thomas Saalfeld (1988) could see no link between the economic and political responses to the Depression in their survey of six European countries (Austria, Belgium, France, Germany, the Netherlands, and the United Kingdom).

[21] Gourevitch (1984, p. 103).

United States adopt autarky, replace currency exchange with bartering arrangements in their foreign trade, and regiment private investment? Conversely, could Nazi Germany and Japan take up free trade, implement their foreign trade on the basis of the currency-exchange principle, and allow private businesses to make their own investment decisions? The fact that the latter two countries tried the same fiscal stimulus as --and, indeed, implemented it more successfully than-- did their three democratic counterparts needs to be placed in a context that includes the sharp differences in all other economic-policy areas.

Gourevitch is not, of course, alone in working with a narrow approach to economic policy. None of the approaches surveyed above encompasses the scope and variety of the responses to the world economic crisis of the 1930s. Instead, they pinpoint one particular aspect of these responses. With the exception of world-system analysis, all approaches give a disproportionate weight to fiscal policy. As for world-system analysis, it gives an equally disproportionate weight to industrial(-ization) policy. Given a truncated policy perspective in both cases, the problem of cross-national variation (or convergence) in responses to the crisis is confined to either the fiscal or industrial domain. We must approach the problem from a broader perspective which encompasses the domains of production, trade, and finance in their interrelationship.

Directly related to policy conception is case selection. None of the comparative studies in question, save Gourevitch's, has at least a minimum number of cases to

represent the diversity of either the metropolitan or small-state responses. Four of the five countries in Gourevitch's study --France, Germany, the United Kingdom, and the United States-- do represent the variety in metropolitan responses. Unfortunately, Gourevitch reduces this variety to a fiscal dichotomy. The other comparative studies draw their cases either from a specific region (such as Scandinavia, the Balkans, or Latin America) or from among the industrialized democracies. If a broader policy conception is the first condition of capturing the cross-national responses, then a representative case selection from among both the large and small countries is the second.

How did the policy studies fare at the level of explanation? The variables identified as explanatory of the fiscal-policy responses are economic ideas, state features, working-class strength, and domestic-group alignments. Yet, as we saw above, there was no necessary connection between these variables and fiscal-policy choices (procyclical orthodoxy and demand stimulus). In other words, how countries responded fiscally to the crisis did not vary consistently with any of those variables. One limit on the variation in fiscal responses was, however, the level of industrialization expressed in terms of position in the world economy. No peripheral country tried demand stimulus during the 1930s. Instead, a small number of peripheral (and semi-peripheral) countries tried neomercantilism to industrialize (and, thus, gain a better position in the world economy). As the case of Nazi Germany demonstrated, however, neomercantilism was not necessarily an industrialization drive.

Notably absent from all existing explanations is the financial system which

defines the relationships both between the industrial and financial sectors, and between these two and the state. The financial system mattered greatly, for example, how countries responded to the crisis in monetary and fiscal terms. It was not a coincidence that all experiments with expansionary financing during the 1930s originated from those countries whose financial systems favoured close institutional ties between the industrial and financial capital. Conversely, the procyclical orthodoxy was an invariable outcome in those countries whose financial systems let industries and banks go their own way.

What is, however, more defective about the explanations under review is their failure to acknowledge the role of the political regime in economic policy. As complexes of institutional and representational relations, political regimes are not open to every policy option which becomes possible in a world-historical context. During the 1930s, both the liberal and corporatist polities excluded the neomercantilist option whereas the authoritarian polities excluded the protofordist one. The role of political regimes in economic policy was more than one of limitation, however. They played also a role of mediation, which I will clarify in the next section as part of my explanation.

A WORLD-HISTORICAL AND GEO-SOCIAL APPROACH

In this section, I first conceptualize the world-historical context of the period as closing off the classical liberal option and as paving the way for new policy options, i.e.

protectionism, protofordism, and neomercantilism. I then establish political-regime type as a limitation on the range of economic-policy variation in a given country. According to this, the liberal and corporatist polities closed off the neomercantilist option while leaving the protectionist and protofordist options open. The policy choice in these polities was, then, between protectionism and protofordism. In (traditional and modern) authoritarian polities, however, the choice had to be made between protectionism and neomercantilism since protofordism was a **reductio ad absurdum** for these polities. I finally elucidate how actual policy choices were made within the limits set by the world-historical context and political-regime types. In this regard, the metropolitan responses, which I take up as part of the problematic to be explained, are at the same time part of the explanation as to the responses from small states, particularly those in the Dominion, Scandinavian, and Balkan geo-social configurations.

Three World-Historical Possibilities: Protectionism, Protofordism, and Neomercantilism

The crisis we are dealing with was, first and foremost, a crisis of liberal capitalism. At the heart of the crisis was the market institution which, in liberal imagery, was "self-correcting". In order to work successfully, the market not only demanded "intrinsic" economic arrangements such as free trade and the gold or some other exchange standard. It also required less tangible "extrinsic" supports at both domestic and international levels, namely parallel political and ideological institutions.

Free trade and the gold standard collapsed early in the crisis. The fatal blow came from the fact that the crisis also put in question the political and ideological institutions of liberalism. At the international level, the virtual crippling of the League of Nations as a project of liberal reconstruction symbolized the breakdown of the interstate system into a number of regional groupings. To make the cycle of "balkanization" complete, these political blocs corresponded in most cases to the newly created trading blocs. The eclipse of political internationalism stood as a major obstacle to fashioning any form of economic internationalism.

Domestically, liberalism did not fare any better. The proliferation of various non-liberal, mostly anti-liberal, political projects throughout the period pushed the small number of liberal polities in the world to take on an increasingly defensive position. On the one hand, corporatism proved to be a sustainable, democratic alternative to liberalism. On the other hand, modern authoritarianism in its various versions (including fascism, Nazism, and one-country socialism) challenged liberalism "from outside". Although corporatism and modern authoritarianism were historically-rooted phenomena, it was chiefly in the 1930s that they came to form a feasible political alternative to liberalism.[22]

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[22] Charles S. Maier (1975) maintains that, in Continental Europe (particularly France, Germany, and Italy), corporatist structures began to emerge during the 1920s. However, he also acknowledges the corporatist breakthrough that came during the 1930s. Similarly, in a survey of political order in interwar Europe, Gregory M. Luebbert (1987) attributes the proliferation of corporatism in its "two variants" (which he identifies as social democracy and fascism) to the forces unleashed by the Great Depression. For a world-system perspective on the transformation of fascism from an ideology in the 1920s into a political form in the 1930s, see Goldfrank (1978). It was

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The ideological crisis of liberalism was both a reflection of and a mediation between its economic and political crises. The evidence that the market could not "correct" itself, and that the state could define and subordinate the logic of economic activity in general would have a definite impact on the economic ideology of policy-makers and of ordinary people. In the face of unfavourable conditions, **laissez-faire** ideology went into hibernation. The classical liberal notion of the separation of economy and polity lost its appeal in the course of the 1930s as economic and political actions echoed immediate implications for one another. To be more specific, the ideological line between political rule and economic policy became fuzzier in the eyes of both individual and collective agents.

Under these conditions, the liberal policy paradigm was not tenable in its undiluted form. A standard liberal response to the first shock of the Depression consisted of adherence to the gold standard, free trade, an arm's-length approach to production, and procyclical monetary and fiscal policies. The last meant deflation, on the one hand, and retrenchment, on the other. The rationale behind this procyclical stance was that the forces of the market would automatically get the economy out of the slump which was relegated to the status of an ordinary contraction. Such a diagnosis was simply utopian. Indeed, no government in the course of the 1930s could

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[22](...continued)
also during the 1930s that the familiar features of what would later come to be known as "actually existing socialism" took shape under the conditions of the socialism-in-one-country experiment.

keep insisting on the liberal orthodoxy as an actual policy posture.[23] However varying it might be, a rupture with the orthodoxy established the minimum requirement for viability in economic policy.

Given the general shift from the liberal policy paradigm to what may vaguely be called "interventionism", it is tempting to lump the particular experiments of the time into one universal pattern. Worthwhile as it might be at higher levels of abstraction, such an attempt would overlook the significant divergence in policy directions that were followed.[24] Three alternative paradigms defined the range of this divergence: protectionism, protofordism, and neomercantilism. A relative convergence

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[23] As a classical orthodox at the time, Lionel Robbins lamented the passing of old-fashioned economic structures by identifying liberal capitalism with capitalism itself (1934, p. 197): "[a]ll over the world, Governments to-day are actively engaged, on a scale unprecedented in history, in restricting trade and enterprise and undermining the basis of capitalism. Such a policy is not confined to the Socialists[...] But their opponents, the dictators and the reactionaries, are inspired by the same ideas[...] They have the same fanatical hatred of economic liberalism, the same hopes of a planned society." Not surprisingly, his "restoration of capitalism" program demanded the "physical withdrawal" of the state from the sphere of production, business confidence, free trade, and the gold standard (1934, ch. 8).

[24] Defined negatively, new policy postures were, to use Karl Polanyi's words, "similar only in discarding **laissez-faire** principles" (1944, p. 244). Viewed positively, there was variable acceptance of political intervention in the economy as a permanent fact. Such tendential similarities do not, however, warrant the conclusion that "state intervention" is an all-inclusive policy form. In this regard, Peter Temin's conception of "socialism in many countries" is a case in point (1989, ch. 3). The reason he levels all innovative experiences of the time under "socialism" is nothing more than increased government intervention in the economy.

On the other hand, swinging in the opposite direction of this position may result in a sense of formlessness. For example, Ekkart Zimmermann and Thomas Saalfeld find "remarkable inconsistency" in the economic policy of governments, by misidentifying those tendencies specific to the period (1988, p. 320): "[...]governments fought off market effects on the external side, while domestically, they by and large relied on market forces year after year even though their economies did not recover."

would come later in the postwar period. In fact, the ways in which economic policies vary cross-nationally in crisis times determine the extent to which they converge in ordinary times.[25]

Of the emergent policy paradigms in the 1930s, protectionism formed the safest, though not necessarily the most minimal, departure from the classical liberal orthodoxy. In this sense, protectionism was a "backup" for liberal orthodoxy. Despite its rhetoric of anti-interventionism in production and circulation, protectionism did not refrain from encouraging the process of "rationalization", a euphemism for cartellization, and the establishment of marketing boards. Financially, the orthodoxy of deflation and budget balancing was upheld with some modifications such as the lowering of interest rates and subsidies for specific sectors or industries. In foreign economic relations, however, protectionism departed unambiguously from the principles of 19th-century liberalism. The new system of foreign trade and finance relied primarily on the abandonment of the gold standard, and the imposition of the various tariff and nontariff measures of protection including currency devaluation.

Whereas protectionism amounted to no more than a "defensive" move out of necessity, protofordism was innovative, building on the liberal tradition in trade and

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[25] To be more categorical, the dominant paradigms of ordinary times in the history of capitalism originate in the "chaotic" explorations of crisis-ridden times. David A. Wolfe identifies three instances of "global" convergence in policy (1981, p. 72): as the "changing forms of economic policy adopted by the capitalist state", mercantilism, liberalism, and Keynesianism "represent the different ways in which the state has performed its accumulation function at different stages in the development of capitalist relations of production."

finance in the international sphere and interventionism at the domestic level.[26] Yet this interventionism did not require the "physical" presence of the state in investment decisions. It had recourse to more unorthodox strategies to regulate the sphere of production. Two such strategies which would prove to be crucial were the economic and political improvements in the reproductive conditions of wage-labour and the formalization of the relations between labour and capital. Another dimension of protofordist innovation was the countercyclical use of state budgets on an experimental basis. Coupled with "easy money" policies, deficit-budget spending on public works and agricultural subsidies signalled a momentous shift towards expansionary financing.[27] As for the international trade position of protofordism, we observe a resurgence of free trade in the most competitive industries, on the one hand, and the

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[26] Since I call this policy regime the protoform of fordism rather than that of Keynesianism, which is more conventional, I must clarify my preference. As they were fully developed in the mid-1930s, Keynes' ideas denoted exclusively a strategy of macroeconomic demand management. Thus, Keynesian vision did not entail social reform and redistribution, not to mention the techniques of microeconomic intervention in the economy, such as planning, cartellization, and nationalization. This was evident in Keynes' strong opposition to the social reform initiatives of the US New Deal. On the Keynes-New Deal dialogue, see Winch (1969, pp. 215, 232-5; 1989, pp. 109-10); Stein ([1969] 1990, pp. 88-90, 149). On the other hand, fordism, as it was practiced on an experimental basis beginning with the 1930s, involved <u>both</u> Keynesianism in the sense defined above, <u>and</u> a set of social reform and redistribution measures which would culminate in the installation of the postwar welfare states. Considering the extra-fiscal aspects of our policy conception, protofordism is the right category. For the postwar fate of fordism, see Lipietz (1987, esp. pp. 14-38).

[27] Some analysts discern two forms of deficit spending: (a) "compensatory", meaning spending out of the necessity to help the needy, and (b) Keynesian "pump-priming", which spends to help the economy recover from the depression (Hill 1988, ch. 4). As Herbert Stein points out, notwithstanding the difference in their subjective emphases, spending as relief and spending as recovery may end up with objectively similar consequences under similar conditions ([1969] 1990, p. 61).

continuation of protectionist practices especially in agriculture, on the other.

In contrast to the two other policy paradigms emerged in the 1930s, neomercantilism made a complete break with liberalism.[28] In its capitalist version, neomercantilism set up a **dirigiste** system of microeconomic intervention in production and circulation while preserving private ownership of the means of production.[29] The main components of this system were cartellization, selective nationalization, governmental regulation of marketing, and a loose form of planning. Thus, combined with a repressive industrial relations system, "physical" interventionism determined the general environment of private investment. At the macroeconomic level, neomercantilism drew on a combination of orthodoxy and innovation. Maintaining the foreign and domestic purchasing power of money was a fixed policy, which did not, however, close off budgetary and extra-budgetary channels for expansionary financing. In foreign trade, neomercantilism sought autarky through import and export quotas, exchange controls, and bilateral clearing agreements, which in turn gave way to a state-controlled

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[28] What I would like to call neomercantilism has often been referred to as "corporatism" meaning the economic-policy posture of interwar fascist regimes. The reason I do not accept this conventional use of corporatism is twofold. First, corporatism is primarily a mode of political regulation or, in other words, a political regime category. Secondly, those fascist regimes which had propagated a corporatist rhetoric eliminated the objective preconditions of corporatism by denying the possibility of divergent interests and, hence, by suppressing the autonomous organization of these interests (Landes 1969, pp. 398-419; Milward 1976, pp. 390-400). The "corporatism" of fascism amounted to no more than a "dead letter", to use Charles S. Maier's words (1987, p. 81).

[29] At this point, a note on Soviet neomercantilism is needed. What distinguished Soviet neomercantilism from its capitalist counterpart were central-comprehensive planning and all-out nationalization. Nevertheless, the two had a paradigmatic convergence in autarky, **dirigisme**, and a repressive industrial relations system.

and semi-barterized trading system.

In conclusion, what made the liberal policy paradigm untenable in the 1930s was not the economic crisis as such. The very fact that the paradigm happened to be dominant (and, hence, orthodox) during the "Great Crash" of capitalism was one reason why it was abandoned. Moreover, this departure became a necessity with the spread of the crisis to the economic, political, and ideological foundations which supported the liberal policy paradigm. The retreat of liberalism at all levels was intertwined with the advance of a global search for policy. The resulting policy experiments on the part of national political economies diverged in the three paradigmatic directions discussed above: i.e., protectionism, protofordism, and neomercantilism.

Thus, the world-historical policy context of the period excluded liberalism and included protectionism, protofordism, and neomercantilism. The last three defined the range of cross-national variation. This does not, however, mean that countries could "choose" any of the three. A second limit on the variation in policy direction was put by the political-regime type. In what follows I establish that neomercantilism was possible only under dictatorship (traditional and modern authoritarianism); protofordism, only under democracy (liberalism and corporatism); but protectionism, both under dictatorship and under democracy.

The Limits of Economic-Policy Choice under Dictatorship and Democracy

How innovatively countries responded to the Great Depression was one thing that cut across the dictatorial-democratic lines. Economic innovation (or orthodoxy for that matter) abounded under dictatorship and democracy alike. However, the form and content of innovation varied greatly across the two political milieus. Protofordism and neomercantilism defined this variation: the former came with democracy and the latter, with dictatorship. Moreover, democratic polities were exclusive of neomercantilism as dictatorial polities were exclusive of protofordism. In order to illustrate this point, we need to embark upon a comparison of political regimes and policy paradigms.

The dictatorial-democratic divide is the primary measure for political regime identification. Among the polities which are found on each side of this divide, there is a secondary regime divide. Whereas the democratic polities are divided into liberal and corporatist categories, the dictatorial polities are divided into traditional-authoritarian and modern-authoritarian (or "totalitarian") categories. There are, thus, four regime types to be dealt with. I will define each one of them at two, horizontal and vertical, levels. The key issue at the horizontal level is the nature of the relationships among those institutions forming the state apparatus. The vertical dimension involves the whole array of state-society linkages, most notably formal and informal modes of representation.

As a democratic regime type, <u>liberalism</u> is based on a strict division of powers

among the legislative, executive, and judicial institutions of the state. What maintains this division is a set of formalized rules which assign each institution clearly defined functions to perform. As a regime feature, the separation-of-powers rule is independent of the organizational and physical features of states. That is to say, the rule cuts across various forms of state organization (unitary, federal) and various levels of state capacity ("strong", "weak"). At the level of state-society linkages, liberalism draws on the principle of geographic representation. According to this, the only recognized category of representation is individual-citizen who expresses his/her preference either directly or through political parties and other intermediate associations. Thus, in all liberal polities, there is a formal equality among the citizenry, or at least among the franchised population, whose aggregate preference is assumed to be the absolute determinant of political power. The substantive inequality that defines the same polities is reinforced by the fact that economic power is not a matter of representation under liberalism. Economic power is assumed to be the preserve of the market.

The difference between liberalism and corporatism, the other democratic regime type, is mainly a representational one. Like liberalism, corporatism upholds the separation-of-powers rule and the principle of territorial representation based on the category individual-citizen.[30] Yet, unlike liberalism, which considers representation

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[30] The use of the term corporatism is a controversial one. The term is employed indiscriminately so as to define a mode of representation and/or intervention common to both dictatorship and democracy. Hence, corporatism comes with many adjectives --and without any analytical strength-- in the existing literature: authoritarian, fascist, state, democratic, liberal, social/societal, and social democratic. See, e.g., Jessop (1979; 1982, ch. 5); Katzenstein (1985); Luebbert (1987); Maier (1975); Offe (1984, ch. 8);

(continued...)

exclusively territorial and, hence, draws a sharp distinction between the political power of the state and the economic power of the market, corporatism supplements territorial representation with a functional one. Thus, the functions that individual citizens perform at the market level constitute a second category of representation for corporatism. Such a mode of representation based on the collective economic (class, sectoral) attributes of individual citizens is, in fact, what distinguishes corporatism from all other regime types.

Regardless of their differences at the representational level, liberalism and corporatism qua democratic regime types draw a common boundary within which economic policy may vary. In other words, they include some economic policies and exclude others. Under the specific circumstances of the 1930s, only two policy paradigms (protectionism and protofordism) were possible in a democratic polity, liberal or corporatist. This possibility should be taken in the sense that no component of those two paradigms contradicted the rule of democracy. The third policy paradigm, neomercantilism, was an impossible option under liberalism and corporatism, precisely because all of its distinguishing features were in contradiction to what make up a democracy. A command mode of intervention in the economy, a repressive labour-control and industrial-relations system, and autarky (not to be confused with a closed economy) can not take effect in democratic polities unless, of course, the legislative

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[30](...continued)
Panitch (1979a); Schmitter (1979). As I define it, corporatism is a democratic regime type distinct from not only authoritarianism but also liberalism, another democratic regime type.

and judicial branches are subordinated to the executive one in violation of the formally-regulated separation of powers and of the citizen-centred, territorial mode of representation.

The subordination of the legislative and judiciary to the executive is a feature of dictatorial polities. The reason for this is that no dictatorship is constrained by the separation-of-powers rule and the principle of territorial representation based on the category individual-citizen, the two "**sine qua non**"s of "actually existing" democracies. Nor does any dictatorship comply with the spirit, if not the letter, of functional representation that characterizes corporatist democracies. Dictatorship is, however, far from being a homogeneous political category. Like democracies, dictatorships differ from each other mainly at the level of state-society linkages.

I define this intra-dictatorial differentiation with two regime types: (a) traditional authoritarian and (b) modern authoritarian or "totalitarian". Under both regime types, the relationships among the state organs are conducted according to the unity-of-powers rule which is rarely endorsed officially. The unity-of-powers rule amounts in fact to the concentration of all powers in the executive branch, often in the person of the leader (titles vary), notwithstanding the grandiose public performance of the legislative and judicial bodies which are needed by dictatorships no less than by democracies. At the level of state-society linkages, however, there is a significant distance between traditional and modern authoritarianism. Traditional authoritarianism "tolerates" a semblance of "civil society" relatively resilient against the intrusions of the state. Crucial to linking this (local) civil layer to the (national) political layer are

the "patrons" who claim an unquestioned authority over their constituency, that is, their "clientele". The patron-client relationship is both a mode of representation and a buffer against any direct penetration of the society by the state.

By contrast, modern authoritarianism does not permit any intermediaries between the state and society.[31] Moreover, the state-society distinction which the other regime types maintain to varying degrees is blurred in this regime type. In situations where such a distinction is under question, the conception of representation takes on a radically different meaning. Thus, the pluralism entailed in territorial, functional, and even clientelistic modes of representation has no place under modern authoritarianism. There is in its stead a monolithic conception of both political and economic power, which guides the practice of representation. Paradoxically, this practice involves a well-defined, very limited category of "citizenry" out of the general population.

As in democratic polities, in authoritarian polities, traditional or modern, the responses to the Great Depression of the 1930s varied only within certain limits. That is to say, dictatorship, like democracy, included some economic policies and excluded others. The protectionist and neomercantilist paradigms defined the limits of economic-policy variation under dictatorship. The other paradigm, protofordism, was outside of these limits, simply because it contradicted the constitution of dictatorial polities. What

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[31] From an interwar perspective, modern authoritarianism included "socialism in one country [i.e., the Soviet Union]", as well as fascism in many countries, most notably Germany, Italy, and Japan. Ideology aside, the regime characteristics of Soviet socialism, along with those of fascism, matched the definition of modern authoritarianism at both the horizontal and vertical levels.

defined protofordism were a predominantly macroeconomic mode of intervention in the economy, an industrial relations system based on the autonomous organization and bargaining of labour and capital, and free trade and currency exchange. Such a policy paradigm is no option for any polity in which all powers are concentrated in the executive, and where individual citizens and collective actors are denied the right to choose and to organize.

To conclude, under both dictatorship and democracy there were limits to variation in economic policy during the 1930s. Regardless of their internal differentiation along liberal and corporatist lines, democratic polities were closed to the neomercantilist policies as they were open to those policies associated with protectionism and protofordism. Similarly, dictatorial polities, regardless of the traditional-modern authoritarian divide among themselves, excluded the protofordist option from the outset and included the protectionist and neomercantilist ones. Thus, protectionism, as the most eclectic and least distinctive (innovative) policy mix, had a "regime-neutral" feature.

The role of political regimes in economic policy is not just one of limitation, however. Political regimes play also a mediatory role by determining the impact of social-demand factors on economic policy. This is where the liberal-corporatist and traditional authoritarian-modern authoritarian divides came to the fore during the 1930s. The mediatory role that these four regime types played was crucial to economic-policy formation during the crisis. Protofordism and neomercantilism, the two polar forms of economic innovation, came with corporatism and modern

authoritarianism, respectively, the two polar forms of political innovation. By contrast, protectionism as economic conservatism held sway under liberalism and traditional authoritarianism, the two antithetical forms of political conservatism.

The political-regime mediation of social-demand factors in economic policy is one of the major issues I tackle next. A second issue concerns the role of the financial system especially in shaping macroeconomic policy. Financial systems provided the key to the relationships not only between industry and finance but also between these two sectors and the government. A last major issue, which I take up with regard to the Dominion, Scandinavian, and Balkan geo-social configurations, concerns the relevance of the imperial/metropolitan connections to economic-policy formation in small states.

Political Regimes, Financial Systems, and the Large States: Response Formation in Small States

To paraphrase Marx's dictum, states make their own economic policy, but they do not make it under circumstances of their own choosing. Only a few of the circumstances under which states make policy are of a limiting character. Thus far, we have identified three such circumstances that limit the policy choices states can make: the world-historical context, political-regime type, and the level of industrialization. Within the world-historical context of the 1930s, there were three paradigmatic choices to the exclusion of classical liberalism: protectionism, protofordism, and neomercantilism. However, the number of choices available to individual states was only two, given

the political-regime limitations within which they operated. Thus, they could "choose" between protectionism and protofordism under democracy, and between protectionism and neomercantilism under dictatorship. As I noted when reviewing the world-system perspective, the level of industrialization expressed in terms of position in the world economy was also a limiting factor especially on macroeconomic policy. A policy of countercyclical demand management was not an option for states in the periphery. It was, however, an option within the limits of the possible for states in the core and semi-periphery.

These three factors (i.e., the world-historical context, political-regime type, and the level of industrialization) defined the limits of possibility for economic-policy choice during the 1930s. Within these limits, however, there was room for choice. How, then, do we explain the transformation of a policy option from possibility into actuality in a comparative perspective? To begin with, there was no connection between the policy choices, and the depth and length of the economic downturn. As I show in the coming chapters, countries with similar experiences of downturn pursued different policies. Conversely, countries with different experiences of downturn pursued the same policies. Likewise, the "general state of economic understanding", the form of state organization (unitary, federal), the degree of bureaucratic centralization, and the level of trade dependency (and economic openness in general) had no bearing on which policy got the upper hand. As for domestic (sectoral, class) groups, their impact on policy outcomes was dependent on the political-regime and financial-system context within which they existed. The institutional (political and financial) context not only

influenced what these groups demanded, but also determined their influence on policy outcomes.

I emphasize the political-regime and financial-system mediation of domestic-group influence as the mechanism key to the policy choices that were made within the limitations specified above. Whereas the political regime played the role of mediation at the paradigmatic (i.e., general economic policy) level, the financial system played it particularly at the macroeconomic (i.e., monetary and fiscal policy) level. Concerning the policy choice at the paradigmatic level, I put forth the following proposition: in their representational capacity, each political-regime type facilitated one policy option and discouraged the other, no matter how strong domestic-group support might have been in favour of the latter.[32] Thus, since it sharply distinguished between economic (market) and political (state) power, the liberal regime type discouraged protofordism and facilitated protectionism as a "second best" orthodoxy which did not require the political inclusion of domestic groups on a functional (and "proportional") basis. Under corporatism, by contrast, the openness of the channels of functional representation for domestic groups was a facilitative situation for the protofordist alternative to have the upper hand over its protectionist counterpart.

In dictatorial regimes, a protectionist outcome requiring no major innovation and no levelling of state-economy boundaries was more likely under traditional authoritarianism than under modern authoritarianism. Neomercantilism, which required

[32] As Theda Skocpol notes (this time, from a broader institutional perspective), there must be a "fit" between domestic-group demands and the "rules of the game" (1992, pp. 54-7).

both conditions, did not "fit" traditional-authoritarian polities where "client" groups enjoyed a certain level of autonomy in the economic sphere. For modern-authoritarian ("totalitarian") polities, however, neomercantilism was a "fit" option.

Financial systems played a similar mediatory role in macroeconomic-policy choices in particular. I classify national financial systems into two main groups according to how they structured industry-finance-government linkages.[33] The first group are commercially-oriented financial systems which put banks and firms at arm's length against one another, and which "de-sensitize" both the financial sector and the government with regard to the problems of the productive sector in general. The second group are industrially-oriented financial systems where banks and firms have converging interests, and where the problems of the productive sector affect the financial sector and are heeded by the government. Regarding the role of the financial systems in macroeconomic policy during the 1930s, I propose this connection

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[33] In highlighting the role of a nation's financial system in how government, industries, and financial sector are interrelated, I draw on John Zysman's work (1983, esp. chs. 2, 6). Zysman distinguishes three financial-system types in five advanced, large capitalist countries during the postwar period: (a) a capital market-based financial system, in the United Kingdom and the United States, which places banks, firms and governments in distinct spheres; (b) a credit-based financial system with government-administered prices, in France and Japan, which facilitates and encourages government intervention in industry; and (c) a credit-based financial system dominated by a few financial institutions, in (West) Germany, which gives those institutions an influential role in industry. The main problem with Zysman's typology is its placement of the UK and US financial structures in the same category. Historically, the United States had an industrially-oriented financial system where banks, organized along unit-banking lines, and firms developed converging interests, whereas the United Kingdom as the world's first industrial nation relied on a commercially-oriented financial system where banks, organized along branch-banking lines, and firms stood at arm's length against one another.

(assuming a certain --at least, semi-peripheral-- level of industrialization): those financial systems belonging to the first group favoured orthodoxy (deflation and retrenchment) over expansionary financing, whereas those in the second group facilitated expansionary financing and were less prone to, if not exclusive of, orthodoxy.

In the case of small countries, I establish the imperial/metropolitan linkages as a third major component of economic-policy choices, in addition to political regimes and financial systems. What makes a country "small" is not its absolute economic and "political" size. I define "smallness" in relational terms. For example, Canada, an economically (as well as territorially) "large" country in absolute terms, can be considered "small" only in relation to the metropolitan United Kingdom and United States with which it held strong historical ties. With such ties, small countries were doubly responsive during the crisis of the 1930s. When responding to the crisis, these countries had to take into account the responses to the same stimulus by at least some of the metropolitan countries. However, the latter did not have such a responsive position to take in relation to the former. The asymmetrical relationship with the metropolitan countries was responsible for the defensive nature of response formation in small countries, regardless of whether their economies were open or closed.[34]

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[34] I use the notion of defensiveness in a sense that is different from the one used in the small-open economy argument. According to this argument, in the internationally-exposed context of a small-open economy, the state and societal actors are compelled to develop specific domestic (political as well as economic) arrangements for the defence of the population (Cameron 1978). These arrangements take different forms, such as "domestic compensation" in Europe (Katzenstein 1985) and "domestic

(continued...)

Some of our concepts need to be qualified. Compared with the plasticity of the "real" world, financial systems, political regimes, and even policy paradigms are rigid constructions. Yet, without them or an alternative set of constructions, it is not possible to describe, let alone to make sense of, that plasticity. The policy stance of individual states cut through the paradigms and/or evolved from one paradigm to the other during the course of the 1930s: from protectionism to protofordism and neomercantilism, as well as from the orthodox liberal paradigm to all three. National financial systems were much more diverse than our dichotomic classification would suggest. At the political-regime level, democratic polities were neither purely liberal nor purely corporatist. They were only tendentially liberal or corporatist. A parallel statement can be made for dictatorial polities: they were only tendentially traditional- or modern-authoritarian. Moreover, the experience of the 1930s made some democratic polities more corporatist, and some dictatorial polities more modern-authoritarian, than they were before, in addition to "transforming" some democracies into dictatorships -- democratic breakdown.

With this qualification, we can now give a brief overview of how large and small states responded to the world economic crisis and why they did so.

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[34](...continued)
defence" in Australia (Castles 1988). As I use it, the notion of defensiveness refers to the positioning of small countries (with open or closed economies) in relation to their specific metropolitan counterparts, not to the socially-protective arrangements "necessitated" by a general situation of economic vulnerability, as in the small-open economy argument.

In liberal polities such as the United Kingdom, Canada, Australia, New Zealand, and (on balance) France, responses to the crisis were protectionist, not protofordist. What the United Kingdom and the three Dominions had in common as part of the British geo-social "family" was a financial system dominated by a small number of commercial banks. This is one major reason why they took a conservative, not expansionary, macroeconomic stand during the crisis (with a peripheral economy, New Zealand was in no position to try expansionary financing in any case). By contrast, France had an industrially-oriented financial system and tried, though unsuccessfully, expansionary financing (and some other innovative policies) during 1936-7. In terms of political regime as well, France differed from the British pattern in that its polity had an ambiguous position between liberalism and corporatism.

While France quickly reverted to protectionism after the protofordist interlude of 1936-7, the United States, Sweden, Denmark, and Norway (and Europe's "consociational" democracies: Belgium, the Netherlands, and Switzerland) evolved towards protofordism in their responses to the crisis. This protofordist convergence between a "large democracy" like the United States and the "small democracies" of Scandinavia had to do with what they had in common at the political-regime level: corporatism. These four had also similar financial systems favouring close relationships between the industrial and financial sectors. Among the four, however, only the United States and Sweden experimented with demand stimulus.

Compared with the US and Swedish cases, the German and Japanese experiments with demand stimulus were a huge success. Germany, Japan, and (to some

extent) Italy invented their own Keynesianism under similar financial systems which resulted in high levels of fusion between the industrial and financial capital. Yet Keynesianism was only a subordinate aspect of the neomercantilist paradigm which defined the crisis policies of these three countries under fascism as a variant of modern authoritarianism. Under one-country socialism, another variant of modern authoritarianism, the Soviet Union gave neomercantilism a planned and collectivized character.

In the small-country context, authoritarianism was prevalent in its traditional form, under which responses to the crisis were distinctly protectionist, i.e. conservative. There were, however, a number of small countries whose political regimes combined, though on a varying scale, elements of traditional and modern authoritarianism. This group included Turkey, Bulgaria, Greece, Romania, and Yugoslavia in the Balkan context; and, most notably, Portugal, Argentina, Brazil, and Mexico in the Iberic-Latin context (Spain zigzagged between dictatorship and democracy during the 1930s). In the Balkan context, responses to the crisis were mainly neomercantilist. With peripheral economies, all five countries in the region had to pursue conservative macroeconomic policies, regardless of their existing/emerging financial systems based on a symbiosis of the government, banks, and enterprises. In Latin America, the "right" authoritarian Brazil produced the region's most thorough neomercantilism, whereas "left" authoritarian Mexico tried neomercantilism with a social face. By contrast, Argentina, an "informal British White Dominion", stayed on a distinctly protectionist course. As for the two old metropolitan countries of Iberic Europe, they were not innovative in economic policy: Portugal chose protectionism and Spain was in war

with itself.

Why did the neomercantilist convergence observed among the Balkan countries not materialize among the four Iberic-Latin countries which had similarly mixed-authoritarian regimes? The answer to this question lies mainly in the divergent metropolitan connections that the four countries in question had (Portugal and Argentina had strong connections with the United Kingdom; Mexico, with the United States; and Brazil, with Germany and the United States). By contrast, countries in the Balkan geo-social configuration had not only similar political regimes but also similar metropolitan connections. Although these countries, like most other small countries in Europe, had important ties with the United Kingdom and France, their "binding" ties were with Germany and, to some extent, Italy. This similarity in metropolitan connections was also a feature of the Dominions and the Scandinavian countries. The fact that countries in each group were located in a common metropolitan context had its impact on the general policy convergence among themselves.

How did imperial/metropolitan linkages influence the economic-policy choices in the Dominion, Scandinavian, and Balkan geo-social configurations? For Canada, as well as for Australia and New Zealand, the United Kingdom as the "mother" country was the most significant referent in policy-making. While the United Kingdom was Australia's and New Zealand's largest, and Canada's second largest, trading partner, the parallels between the UK and Dominion economic policies during the 1930s went beyond the limits that a commercial (or even general economic) relationship would justify. In contrast, the United States was Canada's largest trading partner and US

direct investment in the Canadian economy (especially in its manufacturing and extractive sectors) was exceptionally high. Despite this, Canadian macro- and micro-economic (but not trade) policies were in sharp contrast to those of the United States. Therefore, we must distinguish between the economic and political aspects of the imperial/metropolitan linkages even though the two "normally" go hand in hand.

The Scandinavian countries, another group of "small-open" economies, were located in a different metropolitan context. For one thing, they were not as dependent on a single trading partner as the Dominions were. The conservative United Kingdom and revisionist Germany formed the two most significant metropolitan centres for Scandinavia as a whole. Being caught up in the middle of the two opposite centres had its advantages, as well as disadvantages. The Scandinavian countries, especially Sweden, turned this situation to their advantage under a political regime different from those of both the United Kingdom and Germany. And they did so by developing protofordist arrangements as an alternative to UK protectionism and German neomercantilism.

In Scandinavia, Germany got the upper hand over the United Kingdom only with its muscle during the Second World War. In the Balkans, however, it did not have to use physical force to have the upper hand over its contenders. When the United Kingdom and France became less interested in the region in the course of the Great Depression, Germany filled the gap easily by connecting the peripheral economies of the region to its neomercantilist scheme. As they developed economic arrangements in parallel to Germany's, the Balkan countries traversed a significant distance in

"modernizing" their authoritarian polities. Even under these conditions, however, there was still room to manoeuvre. In the late 1930s, Turkey and Greece were, to a certain extent, able to counterbalance Germany's influence with that of a United Kingdom reasserting its role in the region. Moreover, Turkey found a strong ally in its industrialization drive: the Soviet Union, with whom it had no significant trade relations. From the early 1930s on, Turkey received Soviet technical/financial assistance in addition to learning from Soviet planning experiment.

Political regimes, financial systems, and (in the case of small countries) imperial/metropolitan linkages do not close the circle of explanation. They do, however, establish the key conditions of economic-policy choices within the world-historical context of the 1930s. Without taking these conditions into account, it is not possible to understand how domestic groups succeeded or did not succeed in realizing what they wanted on the part of economic policy. In this regard, the given political-regime type determines the very existence, not to mention policy effectiveness, of intermediate associations (sectoral organizations and political parties) which articulate domestic-group demands.

THE PLAN OF THE DISSERTATION

In providing evidence for my argument, I combine an intensive analysis of Canada, Sweden, and Turkey with an extensive analysis of their geo-social counterparts and

metropolitan countries. These three countries produced the exemplary cases of protectionism, protofordism, and neomercantilism in the Dominion, Scandinavian, and Balkan geo-social configurations, respectively. Australia and especially New Zealand were more innovative than Canada within the general context of protectionism. In Scandinavia, Norway and especially Denmark were less innovative than Sweden in their protofordist responses to the crisis. Similarly, the neomercantilist responses of the four other Balkan countries (Bulgaria, Greece, Romania, and Yugoslavia) were not as innovative as Turkey's. Thus, each one of the three geo-social configurations provides us with an opportunity to look at paths of divergence within convergence. A comparison of the Balkans with Latin America/Iberic Europe (more specifically, Argentina, Brazil, Mexico, Portugal, and Spain) would be interesting in terms of how the two "parallel" regions converged and/or diverged in economic policy but I was not able to do full justice to such a comparison. In the metropolitan context, I take up an extensive analysis of five cases: the United Kingdom, France, the United States, Germany, and Italy. I only briefly describe the economic policies of Japan and the Soviet Union, and deal with the latter in its relations with Turkey.

I present the rest of the dissertation in five demonstrative chapters and a concluding one. Chapter 2 sets the world-historical context. The chapter serves three main purposes in the overall development of the dissertation. First, it outlines the institutional parameters of the world economy prior to and during the Great Depression. Second, it undertakes an extensive analysis of the five metropolitan responses to the crisis. In making sense of these responses (protectionism in the United

Kingdom and, on balance, France; protofordism in the United States; and neomercantilism in Germany and Italy), I emphasize their political-regime and financial-system context, by also assessing the importance of such factors as the depth and length of economic downturn, the level of trade dependency (economic openness in general), the sectoral demands and political strength of domestic groups, the form of state organization (and the degree of bureaucratic centralization), and the national patterns of economic ideology. A third function of Chapter 2 is to highlight the importance of these imperial/metropolitan responses for response formation in the three geo-social configurations at issue.

Chapter 3 picks up the topic of economic-policy responses in the Dominions, Scandinavia, and the Balkans. I conceive of these responses as three distinct strategies of defensive accommodation to the crisis and imperial/metropolitan responses. The economic and political response of the United Kingdom was significant for the Dominions in general and that of the United States, for Canada in particular. The UK response, along with the German response, was also significant for Scandinavia. For the Balkans in general, there were four significant metropolitan responses: the UK and French, on the one hand, and the German and Italian, on the other. For Turkey in particular, the Soviet Union formed another point of reference. Portraying the Canadian, Swedish, and Turkish economic policies in greater detail, I first contrast them with their geo-social counterparts. I then identify the differences in emphasis among the three general strategies of defensive accommodation.

In Chapters 4, 5, and 6, I embark upon an intensive analysis of Canada,

Sweden, and Turkey, respectively, by using their geo-social counterparts as contrasting cases. While these three chapters differ slightly in terms of the method of presentation, each one of them revolves around the same themes involving the characteristics of economic downturn, the foreign connections of the economy, the (current and historical) positioning of domestic groups in relation to each other and state economic policy, and the organizational and bureaucratic features of the state, as well as the imperial/metropolitan, political-regime and financial-system features.

The main argument of Chapter 4 is that the British imperial linkages, liberal political regimes, and commercially-oriented financial systems were central to Dominion protectionism. At the level of imperial linkages, I emphasize the dependence of the three Dominions in question on the United Kingdom both in trade (economic in general) and Constitutional terms. The crucial feature of the Dominion liberal polities was majoritarianism which determined not only the electoral and parliamentary rules but also the party and government structures. What all three Dominions had in common financially was a commercial-banking system dominated by a few large banks and apathetic towards industrial investment. These three common factors brought about the protectionist convergence of Canada and the Antipodean Dominions, despite the significant differences between the former and the latter in terms of economic downturn, industrialization, working-class strength, ethnic composition, and so on.

Chapter 5 spells out a parallel argument in relation to the protofordist convergence in Scandinavia. It is true that the extra geo-social differences between Sweden, on the one hand, and Denmark and Norway, on the other, were not as great

as those between Canada and the Antipodean Dominions. What provided the key to the cross-class and cross-sectoral compromises fashioned during the 1930s were, however, the precarious position of Scandinavia in the face of the rekindled metropolitan rivalries, the corporatist political structures, and the organic finance-industry connections. Scandinavian corporatism was institutionalized with the adoption (early in the 20th century) of proportional representation which shaped the electoral, party, parliamentary, and governmental processes. It was this proportional representation, as well as cracks in the European interstate system, that compelled the crisis agreements between the Social Democratic/Labour and Agrarian parties. As for the main agreements between the union and employers' federations, the German-style financial organization of Scandinavian industries was essential both to the agreements themselves and to the strength of the federations involved.

In Chapter 6, I approach the neomercantilist convergence of the Balkan countries mainly from the vantage point of their metropolitan linkages and political-regime features. For these peripheral countries, especially Turkey, the financial system was a policy issue, rather than a policy cause, in their drive for industrialization. While the extra geo-social differences between Turkey and the other four Balkan countries abounded, all five converged in neomercantilism because of their common metropolitan linkages and their common political structures which were a mix of traditional and modern authoritarianism. As in the Dominion and Scandinavian cases, however, there was divergence within convergence in Balkan economic policies. In this regard, I explain the more aggressive neomercantilism of Turkey with its higher degree of

economic/peripheral "backwardness" and its higher degree of political/authoritarian "modernization".

Finally, in Chapter 7, I recount the main points of the dissertation emphasizing the varying efficacy of domestic-group demands with the political regime, financial system, and, in the case of small countries, imperial/metropolitan linkages.

CHAPTER 2

THE WORLD-HISTORICAL CONTEXT: THE CRISIS AND METROPOLISES

Crises construct as they destruct. Crises of world-historical significance in particular are instrumental in the unravelling of an old order and the making of a new one. Yet, such crises are not simply transition points inserted between "orderly" periods. In bridging the past to the future, they also acquire their own endogenous features that are more than the sum of the structures in decay and/or the emergent structures they prefigure. Consequently, the parameters of world-historical crises can be delineated only with a simultaneous insight of their instrumentality and uniqueness.

Analytically, world-historical crises involve three major dimensions of human social life: the economic, the political, and the ideological.[1] On each of these dimensions, various new (crisis-specific and long-lasting) structures spring up while old ones disintegrate. What constitutes the policy environment of crisis times, or of "normal" times for that matter, is precisely this juxtaposition of the diverging currents on all three dimensions. A proper analysis of crisis situations, therefore, requires moving back and forth between the unravelling past, and the prevailing present and future.

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[1] We could add the cultural dimension as a residual category involved in crises of world-historical significance. But, since culture is not as susceptible to objectification as the other three dimensions in question, we will exclude any potential impact of culture on policy processes from the discussion.

Symbolically inserted between the crash of the New York Stock Market in October 1929 and the start of the Second World War in September 1939, the Great Depression stands out as one such world-historical crisis. In fact, it remains the most paradigmatic crisis modern capitalism has ever seen. From an instrumental point of view, the period was transformative of the protracted 19th-century order which had been established under UK hegemony.[2] It also signalled the formation in the postwar period of a bipolar order under US and Soviet hegemony.[3]

Yet the 1930s had an order of its own. A distinctive aspect of this order was the rapid proliferation of alternative orders in the absence of a world hegemon or a consensus among the major powers. The forces of conservatism and innovation in their authoritarian and democratic versions forged a number of structures which had distinct economic, political, and ideological dimensions. Above all, this was a period of new historical experiments: the New Deal in the United States; the Popular Front in France; fascism in Germany, Italy, and Japan; and one-country socialism in the Soviet Union.

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[2] In a work largely devoted to the strains of market economy in the 19th century, Karl Polanyi (1944) gave a pioneering account of this transformative aspect of the 1930s. It was the crisis of the 1930s that rendered the "great transformation" of the 19th-century civilization by which he meant a system comprised of balance-of-power politics, the international gold standard, the self-regulating market, and the liberal state. Edward H. Carr ([1939] 1946), on the other hand, rightly emphasized the hegemonic role of the United Kingdom in the 19th-century order and conceived of the 1930s as accounting for the final collapse of the utopian project of restoring that order.

[3] Fordism, as it was instituted in advanced capitalist countries in particular, came to define the US-led, capitalist pole of the postwar order (Lipietz 1987). A neomercantilism geared to industrialization was the paradigm of those experiences that had contributed to the Soviet model. The 1930s provided the seminal examples of both types of regulation.

In contrast, capitalist conservatism held sway in the United Kingdom and in France except for the brief Popular Front interlude.

The chief task of this chapter is to portray the world-historical context of the 1930s, within which the Dominion, Scandinavian, and Balkan states set their policy agendas. I first highlight the main institutional features of the world economy during the Depression. I then examine, in greater detail, the metropolitan responses to the Depression in their three variants: (a) UK and French protectionism; (b) protofordism as represented by the US New Deal and French Popular Front experiments; and (c) neomercantilism in Germany and Italy. In making sense of these responses, I place a special emphasis on their political-regime and financial-system context. For our three groups of small states, the world-historical context was composed not just of the world economic crisis and its associated developments, but also of the metropolitan responses to that crisis. Therefore, in transition to Chapter 3, I recapture those aspects of the metropolitan responses which were significant to the Dominion, Scandinavian, and Balkan responses.

INSTITUTIONAL PARAMETERS OF THE WORLD ECONOMY

The 1920s was a decade of restoration. In the years following the end of the First World War in 1918, there were numerous attempts to revitalize the prewar order with its domestic and international components. The overriding aim of internal and external economic policies was to return to the liberal, world economic system of the 19th

century.[4]

One crucial measure was the restoration of the gold standard that had been suspended at the outbreak of the First World War. By the mid-1920s, the gold standard had been restored, with some revisions, on a world scale.[5] The complement of the gold standard was the institution of free trade. The free trade preference, expressed in all international forums, compelled individual nations to change their trade policies with a view to abolishing war-induced import and export restrictions, and to lower tariff rates. These regulatory measures paved the way for a relatively open and multilateral world trading system. Consequently, the world economy experienced an upswing, notably in agricultural and extractive sectors, in the second half of the decade.

The 1920s, however, was not a replica of the prewar period. First, the balance of economic power shifted from Europe to North America and the Pacific.[6] The

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[4] Edward H. Carr characterized these attempts in the 1920s to turn to the 19th-century order as utopian on the grounds that UK hegemony, as the guarantor of that order, had ceased to exist with no individual power to replace it. He prophetically singled out the United States as the most likely candidate for the world hegemon to emerge ([1939] 1946, p. 234): "[i]n 1918 world leadership was offered, by almost unanimous consent, to the United States. The fact that it was then declined does not prove that it may not be grasped at some future time."

[5] The new gold standard was technically called the "gold exchange standard" in order to emphasize its difference from the old one which had prevailed in the prewar period. In the revised practice gold was primarily an international exchange standard, whereas in the original practice gold coins were also in circulation. For the working of the prewar gold standard and its difference from the new gold standard, see Brown (1949); Aldcroft (1977, ch. 7). For different patterns of return in the 1920s to the gold standard, see Moggridge (1989).

[6] Aldcroft (1977, ch. 5).

United States replaced the United Kingdom as the leading creditor country and became the source of massive foreign borrowing on the part of Europe (especially Germany) and Latin America. Secondly, as the chief loser of the war, Germany was billed a disproportionate share of the cost of the new liberal order. The Versailles Treaty of 1919 required Germany to pay the Allies heavy war reparations, and to grant them unilateral and unconditional most-favoured-nation status for a period of five years.[7] Thirdly, the newly acquired influence of the United States notwithstanding, there was no hegemonic power, the necessary condition of a stable world economy, during this period. The gold standard and free trade needed the regulatory authority of a single predominant international currency, and a single predominant trading and financing centre.[8] Yet no such power emerged.

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[7] In January 1923, France (together with Belgium) occupied the Ruhr over the inability of Germany to pay war reparations. The so-called Dawes plan in 1924 specified the terms of German reparations payment. The heavy burden of war reparations and the hyperinflation of 1922-3 would have their bearing on Germany's response to the upcoming crisis and, indeed, on the specific trajectory of that crisis. Derek H. Aldcroft's comment with regard to the hyperinflation of 1922-3 is worth noting (1977, p. 144): "[i]n fact for a generation or more the Germans lived under the spectre of inflation and their reactions to the depression of 1929-32 were conditioned by this disastrous episode."

[8] Commenting on the technical event of the depression is beyond the purpose of these statements. All I want to emphasize is that the three novel features of the 1920s in question made it impossible to reconstitute the world economy on 19th-century principles. Concerning the absence of the world hegemony in production, trade, and finance, Charles P. Kindleberger aptly singled out the respective economic capacity of the United Kingdom and the United States as the key factor in the occurrence and duration of the depression (1973, p. 292): "[t]he world economic system was unstable unless some country stabilized it, as Britain had done in the nineteenth century and up to 1913. In 1929, the British couldn't and the United States wouldn't." At a more technical level of explanation, some highlighted the "real" factors relating to

(continued...)

The crash of October 1929 in the New York Stock Market symbolized the total failure of this attempt at restoration. What became known as the Great Depression was defined, in economic terms, by a number of general characteristics which can be summarized under five main categories: (a) contraction of world production, accounted for by declines in production of industrial goods and raw materials despite an increase in agricultural production; (b) massive unemployment in industry and, to some extent, in agriculture; (c) contraction of world trade, sharper even than that in world production (with the exception of trade in raw materials); (d) a fall in world prices, with agricultural and raw materials prices declining more steeply than industrial prices; and (e) the disintegration of the international monetary and financial system based on the gold standard.[9]

The institutional collapse of an already precarious monetary and financial network formed one of the most outstanding aspects of the world depression. In 1929, under the heavy influence of isolationist tendencies, the United States abruptly ended lending to Europe and Latin America. Combined with inter-European strife, this had serious repercussions for the financial position of Central Europe. Short of foreign

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[8](...continued)
production and trade (e.g., Lewis 1949, chs. 4, 12); others, the monetary and financial ones (e.g., Temin 1989, chs. 1, 2). For a survey of various explanations into the causes of the depression, see Aldcroft (1977, ch. 11); Hill (1988, ch. 2).

[9] For a survey of the Western democracies' experiences in depression from the point of view of production, unemployment, and the duration of the contractionary cycle, see Hill (1988, ch. 3). W. Arthur Lewis provides figures for world production and trade in foodstuffs, raw materials, and manufactures (1949, chs. 4, 11). For the trends in agriculture, wheat in particular, see also Tracy (1972).

funds to service its debts, Germany faced severe difficulties in fulfilling its financial obligations.[10] The bankruptcy of the leading Austrian bank (Credit-Anstalt) in May 1931 caused not only the dislocation of Central Europe's financial system, but also a major strain in those industries of the region that had been supported by the bank. The spectre of this incident in turn prompted the US administration, in June 1931, to postpone all debt payments by the Allies to the United States for one year.

A parallel development was the collapse of the gold standard as the foundation of the international monetary system. The first blow to the system was dealt by the United Kingdom when it decided to go off the gold standard in September 1931. This move precipitated the formation of a sterling bloc to be joined by most of the British Empire, Scandinavia, and a number of countries in the Middle East and Latin America. The decisive moment came in the summer of 1933, when a proposal by the World Monetary and Economic Conference to revive the gold standard on a global scale was rejected by the new US administration which had departed from gold just a few months previously.[11] After 1933, world monetary relations came to be defined by at

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[10] Germany tried to get rid of the reparations problem and eventually managed to do so even before the Nazi takeover. According to the Young plan of 1930, it was given another schedule for war reparations payment. At long last, the Lausanne Conference in the summer of 1932 put a **de facto** end to Germany's reparations payment.

[11] The isolationist position of the early Roosevelt administration caused the collapse of the Conference that was held in London. What kind of priorities this administration decided upon can clearly be seen in Roosevelt's response to the Conference's declaration of intent to return to the gold standard (in Pollard & Holmes 1973, p. 388): "[t]he sound internal economic system of a nation is a greater factor in its well-being than the price of its currency in changing terms of the currencies of other nations."

least three currency groups. Aside from the already established sterling and dollar blocs, those European countries that stuck by the gold standard formed the gold bloc under the leadership of France.[12] This state of compartmentalization would not be reversed completely even after the United States, the United Kingdom, and France forged a monetary agreement, in September 1936, that obliged France to abandon the gold standard (meaning an effective dissolution of the gold bloc).

The absence of a world-wide regulatory agency in trade compelled individual countries to adopt restrictive and bilateral practices. In this instant reversal of the relatively freer trade of the 1920s, the United States took the lead with the Hawley-Smoot tariff of 1930. The Hawley-Smoot tariff had a snowball effect on most countries' trade practices. As the order of the day, protectionism was noticeable in rising tariff rates, import quotas (especially for agricultural products), and foreign exchange controls.[13] What amounted to a strategy of "beggar-thy-neighbour" was a combination of protectionism and various other mechanisms, such as price dumping and currency devaluation (which accompanied each departure from the gold standard). At the same time, bartering arrangements accounted for a rising share of world trade.

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[12] We can add two more blocs to this list: the "blocked currency bloc" under German leadership and the yen bloc in Eastern Asia. For a detailed account of the patterns of departing from gold and the shifting currency blocs, see Brown (1949, p. 45); Chandler (1970, ch. 6); Moggridge (1989, pp. 298-300).

[13] This "trade war" reached its extremes especially in agriculture which was plagued by the problem of overproduction and lower prices. Despite some attempts at cooperation, such as the International Wheat Agreement of 1933, the trade strategy prevailed was minimizing the imports and maximizing the exports. For a graphic illustration of the complicated protective mechanisms in agricultural products, see Tracy (1972).

Bilateral clearing (and payment) agreements, which did not require currency exchange, served the function of quasi-barter trading, mainly between the major powers (notably Germany) and their client states in peripheral and semi-peripheral regions.[14]

The disintegration of world monetary and financial networks also paved the way for a number of "mini-systems" in trade. The project to create isolated trading zones became the common denominator of these systems. Having abandoned its free trade position expressed in the "most favoured nation" clause in the trade agreements with other countries, the United Kingdom initiated, with the Ottawa agreements of 1932, a system of "imperial preference", through which the Dominions were granted favourable entry into the UK market in return for tariff concessions for UK industrial goods. In the meantime, Germany subjected the economies of Central and Southeastern Europe to its autarkic design by fostering a generalized barter trade in the form of clearing agreements.[15] The least exclusionary pattern of the early crisis years originated from the 1933 Montevideo resolutions of American states, and the 1930 Oslo convention of the Scandinavian and Low countries.[16]

However "chaotic" the 1930s might be, there were also instances of major-

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[14] One of the most outstanding features of trade relations in the period was a network of clearing agreements which, by 1937, accounted for about 12% of world trade (League of Nations 1942, p. 70).

[15] It should be noted that Germany's domination over the region was part of historical Lebensraum project rather than a Nazi innovation. In this regard, the aborted Austro-German customs union of March 1931 is a case in point. Another historical project rekindled in the 1930s was Japan's "Greater East Asia Co-prosperity Sphere".

[16] The Low countries had also granted each other preferential treatment in accordance with the Ouchy convention.

power cooperation and the first signs of the postwar order in world economic relations. The shift in US policy from isolationism to internationalism proved decisive. The turning point in this respect would be marked by the Cordell Hull trade program which adopted an explicitly free-trade position. In the second half of the decade, this program became a guiding principle in the US approach to international trade and finance. As it warmed to the idea of economic leadership, if not hegemony, the United States began to take initiatives in structuring a new world economic order.

One such initiative was the Tripartite monetary agreement of September 1936, struck with the United Kingdom and France. The agreement not only made France abandon gold and dissolve the gold bloc, but also intended to abolish the system of quotas and exchange controls for the development of international trade.[17] Another accomplishment of the Cordell Hull program was the 1938 Reciprocal trade agreement with the United Kingdom, which signified the first major reversal of the UK policy of imperial preference, protection, and bilateralism.[18]

This shift towards free trade and some critical developments in domestic policy anticipated the system of economic regulation that would get the upper hand in the post-crisis period. The views expressed in international forums, too, indicated the

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[17] For the text of the agreement, see Pollard & Holmes (1973, pp. 424-5).

[18] Also in 1938, the so-called Van Zeeland report on commercial policy, commissioned by the UK and French governments, favoured a freer trade by proposing reciprocal tariff reductions to be generalized by the "most favoured nation" clause and the removal of industrial quotas, exchange controls, and clearing agreements (Kindleberger 1989, p. 191). In this regard, there were important parallels between the Van Zeeland proposals and the terms of the US-UK agreement of 1938.

policy distance traversed in the course of the 1930s. Following some countries' innovative experiences in economic policy, for example, the International Labour Office recommended, in 1937, a public works program to be financed by budget deficits and other forms of borrowing.[19] Before events evolved in this direction, however, there was the "battle of policies" to which we now turn.

Even this brief overview of world economic developments captures the policy behaviour of the major metropolitan powers at least in the sphere of foreign trade and finance. The United Kingdom and France opted for protection whereas the United States moved from protection to free trade in the course of the New Deal. The shift in German trade policies was from protection towards autarky. Coupled with their domestic behaviour, the international behaviour of these countries gives us the general contours of economic policy in the metropolitan context. In the following three sections, I portray, and try to explain, the general policy behaviour of the four countries concerned and Italy.

First, I deal with the UK and French cases under protectionism. Whereas the United Kingdom was solidly protectionist after 1931, France saw a brief protofordist interruption of protectionism during the first nine months of the Popular Front government (1936-7). Second, I take up this failed French experiment, together with the US New Deal, under protofordism. Third, I deal with the German and Italian cases

[19] For the text of the ILO recommendation concerning public works, see Pollard & Holmes (1973, pp. 454-5).

under neomercantilism while also giving a brief account of German orthodoxy/protectionism before the democratic breakdown of 1933.

PROTECTIONISM TO SAVE LIBERALISM

Protectionism describes the general direction of UK and French economic policies during the 1930s with two exceptions: the 1929-31 period in the United Kingdom under the Labour government and, as already mentioned, France's "Blum experiment". Classical orthodoxy marked the former; and an array of protofordist openings, the latter. All in all, however, neither classical orthodoxy nor innovation would prove "feasible" for these two political economies. Why? The United Kingdom did not stay on the orthodox course, because there was no way to do so under the world-historical conditions of the 1930s. What kept it from innovating in a protofordist fashion were, first, its majoritarian political institutions and, second, the radical separation of its industries and financial institutions identified with the "City". While France had an industrially-oriented financial system and proportional electoral rules, introduced by the Third Republic, its political institutions were insufficient for a protofordist settlement like the "Blum experiment". France lacked either the US-style (loose) or Scandinavian-style (compact) institutions to accommodate diverging interests.

The United Kingdom

The United Kingdom faced the crisis with a minority Labour government formed in the summer of 1929.[20] Until August 1931, when it would break up, the Labour government consistently stood on a track which drew closer to orthodox perfection.[21] The policies inherited from the preceding Conservative government were continued with increasing resoluteness under crisis conditions. The conventions of "external stability" and procyclical "sound finance" closed off all options outside those dictated by classical orthodoxy. Consequently, the basic ingredients of this policy mix were the gold standard and free trade at the international level, and domestic deflation and budget balancing through cuts in public spending. The minority government could not sustain such an anachronism, however, and it fell.

A succession of Conservative-dominated "National" governments marked the turning point for UK economic policy. However incomplete it might have been, breaking with orthodoxy was initiated by the Conservative Party, the very party that was most attached to the central institutions of that orthodoxy. The new policy course, which would remain intact until the late 1930s, did away with the gold standard, free

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[20] With regard to policy developments in the United Kingdom, I rely primarily on the following sources: Aldcroft (1970, ch. 9); Arndt (1944, ch. 4); Checkland (1989, pp. 628-38); Lewis (1949, ch. 5); Winch (1969, chs. 7, 10).

[21] Donald Winch's remarks on Labour's new mission are to the point (1969, p. 117): "[i]t was ironic that the one party whose ultimate goal was the abolition of capitalism by parliamentary means should be in office during capitalism's greatest economic crisis. It was more ironic that the Labour Government should break up as a result of internal dissension over the appropriate methods of saving capitalism."

trade, and the **laissez-faire** approach to microeconomic issues. Nevertheless, it stuck for the most part by the financial, especially fiscal, practices of the previous period.

On September 21, 1931, the United Kingdom went off the gold standard thus becoming the first major power to do so. The departure from gold and the subsequent devaluation of the pound sterling started a protective shift in UK economic policy. While the Import Duties Act of 1932 raised general tariff levels, the Ottawa agreements, later the same year, projected an imperial trading bloc based on the principle of preferential treatment to replace the century-old "most favoured nation" principle.[22] Supplementing imperial closure, bilateralism targeted peripheral and semi-peripheral regions that fell outside of the formal empire, as in the payment and clearing agreements concluded with the (mostly debtor) countries of Southern and Eastern Europe, Scandinavia, and Latin America. In order to understand the full meaning of this "protectionism", however, we should also look at its domestic context.[23]

What we could daringly refer to as a "production policy" constituted a second, perhaps the most, "innovative" aspect of the United Kingdom's response to the Depression. In agriculture, protective tariff and nontariff measures were supplemented with **ad hoc** subsidy programs, and various marketing boards created to control output

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[22] Drummond (1974, p. 184).

[23] Donald Winch goes even further and relegates UK protectionism to a status instrumental for microeconomic intervention in the domestic economy (1969, p. 204): "[t]he real significance of protection for the Conservatives lay elsewhere: it provided the government with a planning lever to be used in support of its policies for industrial and agricultural reorganisation."

and to set prices. The government assumed an active regulatory role in manufacturing and utilities as well. It introduced compulsory cartel schemes for some industries, and induced others to "rationalize" and reorganize their operations by offering tariff protection. The creation of public and private monopolies by the government amounted to a strong rejection of the "self-regulating market". When policies to relocate certain industries on a regional basis are added, it can be said that a practice of patchwork planning made its way into the economy.

The hallmark of the UK response, however, was its monetary and fiscal conservatism. Notwithstanding a policy of cheap money via lower interest rates in the 1932-5 period, deflation remained the major monetary goal at least until the start of the armaments buildup in 1937. The decision not to use domestic monetary policy for any purpose other than deflation should be contrasted with the fact that the 1931 devaluation and subsequent management of the pound sterling had already formed part of the drive for export promotion and protectionism in general. Like monetary policy, fiscal policy had been assigned an overriding task: the attainment of balanced budgets. This was sought through cutting back expenditures (including wages), and raising both direct and indirect taxes. Consequently, when the state had to handle the unemployment problem in ways other than extending the coverage of the unemployment insurance system, the only means to which it had recourse was "relief measures".

How can we explain UK reluctance to adopt a more aggressive approach? It is true that the UK depression was less severe than elsewhere and recovery had begun

by the mid-1930s.[24] Taking a comparative viewpoint, however, we can state that there was no connection between the fiscal (or general economic) policies, and the extent and duration of the economic crisis.[25] In order to make sense of the United Kingdom's monetary and fiscal conservatism, we must direct our attention elsewhere.

One explanation is that Keynes' General Theory came out "too late", namely in 1936, when recovery was well underway.[26] There are two problems with this explanation. First, other countries, such as Germany and Japan, adopted large-scale public works programs financed out of deficit budgets despite the absence of a "theory" that would indicate or justify such a break with the past. Second, despite the absence of a formal model, a number of publicly influential people (including Ernest Bevin, Lloyd George, and, of course, Keynes himself) had been calling for counter-

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[24] From a technical point of view, most analysts agree on what accounted for the UK recovery. According to this, the economy came around mainly through the revival of home-bound industries and services, notably the housing boom. In the language of classical economics, it was the "real" rather than "policy" factors that had got the economy out of the depression (Richardson 1967, ch. 12).

[25] For example, with a depression as mild as the United Kingdom's, Japan implemented a program of deficit financing. Conversely, France's more severe and more enduring downturn did not receive such a response with the exception of the abortive "Blum experiment" with demand stimulus. Japan and France can be replaced perfectly by two of our three major comparative cases, namely Sweden and Canada, respectively.

[26] Despite the contrary evidence contained in his own works, Donald Winch insists on this rather naive version of idea-based explanation (1969, esp. chs. 5-9). To put it as plain as possible, the gist of his argument is that the absence of expansionary financing in pre-Keynesian (read: pre-1936) United Kingdom can be explained largely by the failure of classical economics to observe the now-known linkages between the "real" problems, such as production and employment, and the monetary and fiscal problems. In his later writings, he seems to disown this position (e.g., 1989). Also in a book co-authored with Susan Howson, he rightly refers to the "technocratic fallacy" in Keynes' handling of the policy issues (Howson & Winch 1977, p. 160).

cyclical public works since the 1920s via union, party, and state platforms.[27] Although not fully developed in technical terms, the proposals advocated by this circle provided a plan of action for a countercyclical strategy.

The power of economic ideas has to do less with their presence qua knowledge than with the attachment and convention they establish in the policy-making institutions and cadres. In this regard, we should highlight the deep-rooted loyalty to monetary and fiscal orthodoxy of the United Kingdom's leading policy bodies, such as the Treasury, the Bank of England, the Conservative Party, and "even" the Labour Party leadership.[28] The "Treasury view", as it was formulated in 1929, sanctified the principle of "sound finance" maintaining that no increase in production and employment could be achieved by state borrowing and expenditure. The Bank of England justified its deflationary stance, first by the principle of "foreign confidence" identified with the gold standard, then by raising the fear of inflation at home. The attachment of both organizations to orthodoxy had been perpetuated also by their strong belief in the "non-political" expert treatment of policy issues.

From a civil service-centred perspective, however, it was the organizational

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[27] For the "proto-Keynesian" policy proposals in the 1920s, see Winch (1969, pp. 104-9). During the 1930s, Keynes and others made their case for deficit-financed public works by way of the Economic Advisory Council, which was established in 1930 by the Labour government, and the succeeding Committee on Economic Information (Howson & Winch 1977).

[28] The Labour Party formed two minority governments during the interwar years: 1924 and 1929. With Ramsay MacDonald being Prime Minister and Philip Snowden, Chancellor of the Exchequer, both governments turned out to be the staunchest supporters of the monetary and fiscal orthodoxy identified with the Bank of England, the Treasury, and the financing-trading complex of the City.

features of the Treasury that accounted for the United Kingdom's "failure" to innovate in the area of fiscal policy.[29] According to this argument, the centralized and hierarchical organization of the Treasury as the agency responsible for fiscal policy and the civil service made it "impermeable" to any policy innovation. This view suffers, first, from the fact that other countries with similarly high levels of bureaucratic centralization, such as Germany, Japan, and Sweden, were the seat of the most aggressive fiscal policies during the 1930s. Secondly, it suffers from a confusion of bureaucratic centralization in an organizational sense with centralization of policy-making. Policy-making in the United Kingdom was not even coordinated, let alone centralized. It was highly compartmentalized: fiscal policy was the Treasury's preserve; monetary policy, the Bank of England's; and industrial policy, the Board of Trade's and the Ministry of Labour's.[30] Given the compartmentalization of policy-making, a general view of the economy, facilitative of macroeconomic demand management, did not develop.

As for political parties, the two major parties did not distinguish themselves along clear-cut policy lines.[31] As the party most associated with the non-elected elites based in the Treasury (civil service), the Bank of England, and the financing-trading complex of the City, the Conservatives defended deflation and budget balancing. Yet,

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[29] For a civil service-centred interpretation of UK response to the Depression, see Weir (1989); Weir & Skocpol (1985, p. 128).

[30] For this aspect of UK policy-making institutions, see Skidelsky (1967, pp. 14-5).

[31] In discussing the party positions with respect to policy, I benefited from Kavanagh (1973); Skidelsky (1967, esp. chs. 2-4, 10).

at the same time, in defiance of the City's and the Bank of England's internationalism, they proposed protectionism and industrial cartellization, which were the preference of home-based industries where unemployment had been relatively low. The Labour Party, meanwhile, conceded to an undiluted orthodoxy including free trade, deflation, and fiscal constraint, despite the existence of a vocal union wing favouring public works programs and the concentration of the Party's electoral support in export-oriented industries where unemployment had been much higher than in domestic industries. Deferring the task of creating employment to a distant "socialist" future, the Party embraced the maintenance of the unemployed through the insurance system as the only option within capitalism.[32]

The case of the Liberal Party requires special attention since it was the only party that explicitly pushed, from the early 1920s on, for a public works program based on fiscal activism. Dropping the doctrine of "sound finance" and **laissez-faire** liberalism, the Liberals infused social reformism into their traditional allegiance to free trade, an infusion which would, indeed, turn out to be the protofordist innovation of the 1930s. On this platform they contested the 1929 general election, but to no avail.[33] Despite significant support from the populace, the Liberals were unable to

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[32] Critics disappointed by Labour's performance in 1929-31 resent the "millennial" or "biological" socialism of Ramsay MacDonald, the Party's leader and the United Kingdom's Prime Minister at the time. For this, see Kavanagh (1973, pp. 181-2); Skidelsky (1967, p. 85). Donald Winch's remark on MacDonald's socialism is a must to quote (1969, p. 143): "[i]t furnished a guide to the next hundred years, but not for the next hundred days."

[33] The Liberals' electoral platform was first hinted in their 1928 "Yellow Book", (continued...)

have their case heeded by the policy-making bodies. How should we interpret the Liberals' conversion to social reformism early in the century and their virtual demise on such a platform during the 1930s, as well as the actual policy behaviour of the other two parties?

Looked at from the angle of working-class strength, the conditions were propitious for a "Lib-Lab" coalition based on expansionary financing. First, the UK labour movement was centralized and relatively strong in both union and party terms. Second, the Labour Party, as the political wing of the movement, had sufficient electoral and parliamentary strength to place it as the major partner in a majority coalition government. Lastly, and this is the critical condition to establish, there was an innovative party willing to play the role of junior partner, that is, the Liberal Party with considerable electoral, but not parliamentary, support. Yet, contrary to the expectations of the "working-class strength" thesis, no coalition of this sort took place.

Taking an institutional view of interest-policy connections, we can also point out aspects of the UK economy which were not facilitative of expansionary financing.[34] First, given its high level of trade dependency (openness in general), the economy was sensitive to the balance of payments problem. Second, labour's

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[33](...continued)
Britain's Industrial Future, and then elaborated in Lloyd George's 1929 booklet, We Can Conquer Unemployment. Dennis A. Kavanagh captured part of the truth when he aptly called Lloyd George "the right man in the wrong place"; and Ramsay MacDonald, "the wrong man in the right place" (1973, pp. 214-6).

[34] For an interest-based explanation of the United Kingdom's "neo-orthodoxy" in the 1930s, see Gourevitch (1984, pp. 118-22; 1986, pp. 136-40); Kurth (1979b, p. 25).

traditional preference for free trade due to its interest in cheap foodstuffs prevented a **rapprochement** with agricultural producers. Finally, small farmers, the most likely group to compromise with labour on the basis of fiscal expansion and agricultural protection, formed only a small portion of an already relatively minor sector. However, trade dependency, labour's free-trade preference, and the weakness of small farmers did not inhibit expansionary financing either. In its size, UK agriculture was, indeed, unique and formed a structural obstacle to a "red-green" alliance. In Sweden, whose economy was similarly open, such an alliance took place after labour gave up its position of free trade in foodstuffs. That Swedish fiscal experimentation came with this alliance is another matter, however. A "red-green" alliance was neither necessary nor sufficient for demand stimulus. Germany and Japan tried it without such alliances whereas Denmark and Norway did not try it despite their "red-green" alliances.

A more significant constraint on UK macroeconomic policy in the 1930s were the institutional arrangements inherited from the 1920s. High-interest policies initiated early in the decade and the return in 1925 to the gold standard at the prewar parity put deflationary pressure on the economy. This in turn produced two important consequences. First, unemployment --the so-called "intractable million"-- remained high. The unemployment insurance system introduced in the prewar period largely framed the pattern of response to unemployment, namely extending the system's coverage twice in the 1920s (1920 and 1927) and again in 1934.[35] Second, interest payments on the

[35] For the progressive extension of the coverage of unemployment insurance in the interwar period, see Checkland (1989, pp. 628-38).

national debt and social service expenditures (including unemployment insurance) put a heavy burden on the state budget, thus making fiscal expansion difficult.[36]

All this said, the fiscal orthodoxy of the UK governments during the 1930s remains largely unaccounted for. Why did these governments, while taking those measures indicative of monetary management (departure from the gold standard, devaluation, and reductions in interest rate), not try fiscal management? One critical factor was the financial organization of UK capitalism, which had resulted in the radical separation of the employing and banking functions of capital. The UK financial sector, identified with the "City", was dominated by large, commercial banks organized along branch-banking. This type of financial organization not only created a chasm between industries and banks but also severely limited the government's choice of macroeconomic response to the problems of the productive sector. Under these conditions, UK governments relied mainly on microeconomic means of intervention in industry, such as protection, cartellization, and regional relocation.

Coupled with its commercially-oriented financial system, the United Kingdom's liberal/majoritarian institutions give us much of the answer to why its response to the

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[36] According to Donald Winch, interest payments on the national debt constituted the single largest item in the budgets of the 1920s with over 40%, the expenditures for social services being the second (1969, pp. 96-7). He concludes that the chief motive behind the cheap-money policy of 1932-5 was to ease the burden interest payments on the national debt had put on the state budget, not to stimulate the demand for housing (1969, p. 203). Alan Booth arrives at a more general conclusion in this respect. His argument is that the costly burden of the "postwar settlement" necessitated the retrenchment policies of the 1930s leaving no room for experiment with demand stimulus (1989, pp. 37-8).

crisis was protectionist (i.e. conservative) and not protofordist (i.e. innovative). There were no compromises either from "above" or from "below", firstly because of the fact that the UK polity was structured along majoritarian lines in electoral, party, parliamentary, and governmental terms. Exclusion is the most distinguishing feature of majoritarianism. Under strict majoritarian electoral rules, the Liberals, as the party of innovation in the interwar period, were reduced to a tiny group in the House of Commons despite their sizable support among the electorate.[37] These rules paved the way in the mid-1930s for an effective two-party system, meaning the practical demise of the third-place Liberal Party which had pushed unsuccessfully for electoral reform in the direction of proportional representation. While favouring the two largest parties electorally, majoritarianism effectively excluded the second largest (i.e. main opposition) party from policy-making channels. Under these conditions, policy-making was the preserve of a governing party which did not need to strike compromises at every move.

Looked at from "below", UK labour did not have much say in economic policy, during the 1930s, even under the Labour government. The strong union wing of the Party pushed insistently, but to no avail, for public works programs. Neither did the unions get what they wanted at the level of the workplace. Their failure to influence the economic policy of the Labour government is not something to be explained by the

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[37] In the critical election of 1929, the Labour and Conservative parties got around eight million popular votes each, and gained 287 and 260 seats in the Commons, respectively. The Liberals, on the other hand, gained only 59 seats with over five million votes (Kavanagh 1973, pp. 185-208; Skidelsky 1967, pp. 51-75).

orthodox attachment of the Party leadership. This had to do with the exclusionary characteristics of the United Kingdom's political and industrial institutions.

France

The French union movement faced a similar problem of exclusion within the context of a "permeable" liberal polity. The fact that, for a brief period in the 1930s, it was able to establish itself as a major partner in industrial relations was a consequence of the Popular Front's intervention from above --but this runs ahead of our story.

There were interesting parallels between the UK and French responses to the Great Depression. Cartellization, monetary and fiscal orthodoxy, and protection characterized the policy mix of both countries for most of the period. Nevertheless, France was one step ahead of the United Kingdom on all these dimensions. Despite a high rate of turnover in office, French economic policies (save the abortive Blum experiment) proved resistant to change. The various governments, dominated either by the right or left Radicals or by right-wing alliances, tried to elaborate on the "consensus" built around the gold standard, deflation, and budget balancing.

Until 1936, France was the staunchest supporter of the gold standard.[38] After

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[38] For France's policy course in the 1930s with the exception of the Popular Front period of 1936-7, I consulted the following works: Arndt (1944, ch. 5); Jackson (1985, chs. 4, 5); Kemp (1972, chs. 8, 10, 11; 1989, pp. 738-51); Lewis (1949, ch. 7); Zimmermann & Saalfeld (1988, pp. 312-4).

all other major countries became off gold in 1933, it formed the "gold bloc" with Italy, Poland, Switzerland, and the Low countries. Sticking with the gold standard, however, did not mean a defence of free trade practices or even principles. Rather it meant support for the kind of protection that utilized both higher tariff rates for agricultural and industrial goods, and extra-tariff measures such as import quotas and clearing agreements. Furthermore, tariffs came to be subordinated to non-tariff restrictions on imports. Although the idea of increasing the trade with other "gold bloc" countries and the colonies was entertained, France was not able to form a trade bloc of its own.

From the domestic perspective, this protectionism took the form of cartellization in both agriculture and industry. In addition to import restrictions, agriculture was protected through price fixing, restriction of crop areas, and government purchasing of some staples. A detailed regulatory program was implemented in the industrial sector as well.[39] Large-scale industries in particular favoured formal cartels and interfirm agreements with a view to retrenchment. The list of the measures used to retrench and entrench is a long one: fixing prices, limiting production via quotas (particularly in coal, steel, and chemicals), market-sharing by existing firms, restricting entries to business, and cutting back on investment and innovation.

French monetary and fiscal conservatism dwarfed its UK counterpart. In the

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[39] Tom Kemp's comment on this process of regulation is worth noting (1972, p. 166): "[w]hile lip-service was paid to the virtues of economic liberalism, increasingly, in the 'thirties, the free market became a regulated market designed to conserve the positions of those already in possession."

pre-1936 period, it was a fixed policy objective to defend the internal and external value of the franc Poincare (named after Raymond Poincare, the Premier in 1926 when France unofficially returned to the gold standard with an undervalued currency). In the post-1936 period, the internal part of this policy (deflation) was retained, whereas its external part (the overvaluation of the franc) could no longer be continued after departure from the gold standard in 1936. With the single exception of the first Blum government, the fiscal policies of the French aimed at attaining balanced, or preferably surplus, budgets through reductions in public spending, wage cuts, and tax increases.[40]

The French economic downturn was radically different from that of the United Kingdom. The depression showed its first effects late in 1931 and lasted for a prolonged period of time.[41] Compared with the UK, it was also a more severe depression in every respect other than employment. Unemployment was kept at a lower level not due to measures to create jobs but to measures to reduce the active labour force. Immigrant workers were repatriated and many unemployed workers were returned to their family farms. The point to be made here is that the longevity and severity of the depression had no bearing on "inactivism" in French financial and social policies. One of the boldest financial and social policy initiatives was in the

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[40] One additional task of the post-1937 governments was to dismantle the Popular Front's social legislation and to restore "business confidence".

[41] In fact, the French economy could not recover from the depression until after the start of the Second World War. As Tom Kemp points out, it was the worst-performed industrial economy in the 1930s (1972, p. 169).

United States which experienced the most severe, and not-so-short-lived, depression in the 1930s.

Concerning the role of economic ideas in French policies, we can speak of a set of monetary and fiscal conventions at both the academic and institutional levels. The "deflationist consensus" of the time not only meant the defence of the franc Poincare at all costs, but also justified fiscal conservatism. An anti-devaluationist bloc thus came into being, embracing all major institutions "from the Regents of the Bank of France to the Central Committee of the Communist Party".[42] However, the perceived consequences of a possible devaluation varied across the parties within the bloc. The propertied classes and their "liberal" spokespersons in academic and political circles feared that devaluation would result in social revolution, the loss of property and prestige, and etatism. Those on the Left, the Socialist and Communist parties in particular, saw in devaluation the erosion of the workers' purchasing power and the beginning of a "Keynesian fixing-up" of capitalism.[43] To conclude, the social weight these orthodox ideas gained had to do not so much with their theoretical status as with the ideological use to which they had been put by their carriers.

The position of political parties in this respect is particularly important since they are primary intermediaries between domestic groups and the world of ideas. In

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[42] The expression is Tom Kemp's (1972, p. 103).

[43] In accounting for the absence of Keynesianism in France at the time, Pierre Rosanvallon points out three factors which are all related to economic theory and ideology: academic community's liberal orthodoxy; politicians' distrust of the economic expertise; and a **deja vu** perception of Keynesianism due to the preexistence of a "para-Keynesian", namely underconsumptionist, tradition (1989, pp. 173-80).

the case of France, all parties on the Right fiercely opposed devaluation and expansionary financing, whatever interests they claimed to represent (big business, small producers and **rentiers**, and even "Catholic labour").[44] As the party most identified with the rural and urban petty bourgeoisie, the Radicals of both right and the left stuck with financial orthodoxy at the macroeconomic level and pushed for an **economie dirigee** at the microeconomic level. The Socialist and Communist parties, reflecting their underconsumptionist reading of the economic downturn, supplemented their traditional social reform program with more urgent proposals, such as relief and public works, to increase the purchasing power of the masses. Yet, neither of the two major left parties would face the choice between deflation and devaluation. For both, any budget deficit could be "tolerated" only for the duration of the crisis.

The relative closeness of party positions with regard to economic, and especially financial, policies can be attributed largely to the production profile of France's relatively closed economy. The critical sector was agriculture which accounted for about one third of the population.[45] The prevalence of inward-looking small peasant production constituted the most notable feature of this sector. The factor paralleling this was the urban artisanal producers and small **rentiers**. These rural and urban groups together formed a crowded class of traditional petty bourgeois, whose weight in the overall economy was considerable. The class and sectoral salience of

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[44] For the French parties' position with regard to economic policy, see Jackson (1985, esp. chs. 1, 3).

[45] For the sectoral importance of agriculture to the French economy, see Kemp (1972, ch. 10).

small commodity production in a closed economy was potentially obstructive of both devaluation (which was equated with inflation by the French) and fiscal expansion.[46]

The opposition of these petty-bourgeois interests to devaluation and domestic reflation was also in response to France's past experience. The first thing to be noted was the high inflation of the 1920s. Secondly, the return to the gold standard in 1926 (officially in 1928) was accompanied by a substantial devaluation of the franc. As a result of this experience of the 1920s, the French developed an oversensitivity to inflation and devaluation in every major sector of society, including the export industries, which would "normally" be the least likely to fear devaluation.

The foregoing discussion would have provided an adequate explanation of French economic policy during the 1930s, had it not been for the Popular Front interlude of 1936-7. Abortive as it was, the "Blum experiment" adopted a number of economic and social policies that demonstrate the inadequacy of the factors mentioned so far. These policies amounted to a complete reversal of French conventions in monetary and fiscal practice, as well as in other practices. This experiment along with the US New Deal will be the focus of our attention in the next section.

CHARTING THE FUTURE THROUGH PROTOFORDISM

Whereas the "Blum experiment" of the Popular Front government came to an abrupt

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[46] The petty-bourgeois factor in French social life may also be responsible for the "underdevelopment" of French social policies, unemployment insurance policy in particular, at the time. For this, see Kemp (1989, pp. 750-1).

end only nine months after it was initiated, the New Deal of the Roosevelt administration lasted two Presidential terms. In a sense, both experiments can be seen as an "aberration" in their respective political economies. Most of the New Deal's organizational structures were dismantled during and after the Second World War. The economic and social legislation of the Popular Front period could not even survive the 1930s. What would carry these experiments into the postwar period was rather their innovation in preparing the political conditions of policy-making.

The French "Blum Experiment"

During the first nine months (June 1936 to March 1937) of its incumbency, the Popular Front government, formed by the Socialist, Communist, and Radical parties, tried to reflate the economy on the basis of increasing the purchasing power of workers and agricultural producers.[47] The first major step was the Matignon accord, concluded by the government and the main labour and business confederations. The Matignon accord included such important provisions as the right of workers to join unions and to strike, the principle of collective bargaining, a system of shop stewardship for large

[47] Nationalization would not become a major part of the "Blum experiment". It was limited to parts of armaments industry. Nevertheless, the Front government increased its control over the macroeconomic policy-making bodies by means of reorganizing the Bank of France as a semi-public institution and establishing a National Economic Ministry for the overall conduct of the government policies. For the policy developments during this period, see Jackson (1988, esp. ch. 6); Kalecki (1938); Kemp (1972, ch. 9); Marjolin (1938).

workplaces, and wage increases.[48] To complement its social policy drive, the government also took legislative initiatives involving an annual two-week holiday with pay, a forty-hour week without wage reduction, and the institution of a collective-bargaining system. The agricultural counterpart of this "purchasing power policy" was composed of fixing agricultural prices at a higher level and the purchase of agricultural products, notably wheat, through newly-established public marketing boards.

The Front also utilized off-budget programs of public works to create jobs for the unemployed. What was originally envisioned was that measures to create jobs and increase purchasing power would not require devaluation and deficit spending. The decision on September 26, 1936 to abandon the gold standard and to devalue the franc was in fact enforced by the Tripartite monetary agreement struck with the United States and the United Kingdom.[49] The removal of this deflationary obstacle to fiscal expansion, however, was not followed by any program of deficit spending. On the contrary, even before it disintegrated, the Popular Front government reverted to the financial orthodoxy of previous governments by scrapping its policies of extra-budgetary demand stimulus.

The background to the formation and coming-to-power of the Popular Front lends support to the working-class-strength thesis. First, at the level of ideas, the parties forming the Front (the Socialist Party in particular) were all committed to an

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[48] For the text of the Matignon accord, see Pollard & Holmes (1973, pp. 404-5); Jackson (1988, pp. 305-6).

[49] Charles P. Kindleberger details the story of how devaluation was forced on France through the Tripartite agreement (1973, ch. 11).

underconsumptionist reading of the causes of the depression. This reading constituted the rationale for increasing the purchasing power of the masses by means other than devaluation and budget deficits.[50] Secondly, although the labour movement was still split between the Socialists and the Communists, it had achieved unity at the union level prior to the formation of the Front government.[51] Thirdly, the Front's composition was an effective alliance between workers, represented by the Socialist and Communist parties, and rural and urban small producers represented by the Radical Party. Lastly, there was of course the electoral success of the Front parties.

However, the fact that the Popular Front governance was an abrupt failure is not supportive of the working-class-strength thesis. Also, the failure of the "Blum experiment" (or the restoration of orthodoxy) shows that an industrial-oriented financial system was not the sufficient but necessary condition of demand stimulus during the 1930s.

An adequate explanation of why the "Blum experiment" took place and resulted in failure is not possible unless the characteristics of the French polity are highlighted. We should, therefore, focus our attention on the Third Republic both Constitutionally

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[50] The 1936 election program of the Popular Front included all those policy measures, save devaluation, that would be taken during the first nine months of the Front's governance. For this program, see Pollard & Holmes (1973, pp. 400-2); Jackson (1985, ch. 6; 1988, pp. 299-302).

[51] The (re-)unification of the Socialist-controlled CGT and the Communist-controlled CGTU in March 1936 left the Catholic-controlled, tiny CFTC as the only competing confederation. Also notable in this respect was the fact that union membership scored over fivefold increase under the Front government (Rimlinger 1989, pp. 585-6).

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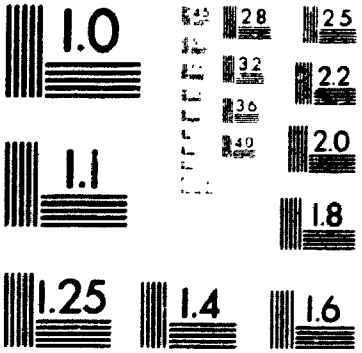

and institutionally. The French electoral and party systems helped the Popular Front parties gain an overall majority in the elected chamber of the parliament. Of crucial importance in this regard was proportional representation which greatly enhanced the parliamentary strength of left parties. Proportional representation alone would not have carried the Popular Front to power had it not been for the fragmentation of the bourgeois parties which were hardly anything more than loose electoral organizations.[52] In conclusion, proportional representation and the political split within the bourgeoisie were decisive in tulfilling the political condition of the French protofordist openings at the time.

Yet, in the French case, proportional representation was only an electoral rule introduced by the Third Republic. It did not involve proportionality and partnership in policy-making as in the Scandinavian case. Non-elected policy bodies were not structured so as to channel every politically vocal interest. "French corporatism" thus faltered in carrying out the crucial task of creating new channels of representation. To be sure, the Matignon accord that brought government, business, and labour together formed a major step in creating such channels. Yet it was only an **ad hoc** accord struck in response to an urgent crisis --a general strike. In fact, both business and labour were forced by the government to sign the accord. The reason why the "Blum experiment" broke down so quickly had to do with this enforced-nature of its main pillar.

In contrast, the US New Deal was a relative success precisely because of the

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[52] For the bourgeois split, see Jackson (1985, ch. 1).

regime conditions that were absent from France. Although the United States lacked such conditions as a strong labour movement, unitary state structure, and centralized bureaucracy, all of which were present in France, it produced the most advanced form of protofordism in the world with the single exception of Sweden.[53]

The US New Deal

One notable feature of all innovative responses to the Great Depression was that they came only after all "safer" options were tried. The New Deal was no exception. Under Herbert Hoover's Republican administration during 1929-32, protectionism was the pillar of US economic policies. The Hawley-Smoot tariff of 1930 introduced a drastic increase in tariff rates especially on raw materials and agricultural goods. Internally, the administration dealt with the crisis within the confines of deflation and budget balancing. It first sought to encourage sales and investment through tax reductions but the tax rates were raised later on to balance the budget in the face of declining revenues and increased spending on relief.

Beginning in 1933, the two-stage New Deal of Franklin D. Roosevelt's Democrat administration made a sharp break with traditional policies. Whereas the first New Deal (1933-5) remained true in its broader contours to the worldwide tendencies

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[53] As Peter J. Katzenstein (1985, p. 138) emphasizes, "[a]mong the large industrial countries only the United States saw the emergence of a new durable alliance in the 1930s that bears a superficial resemblance to the corporatist [protofordist in my conceptual framework, A.T.] bargain struck in the small European states." On the "corporatist" policy stance of the New Deal, see also Shonfield ([1965] 1969, ch. 13).

specific to the period, the second New Deal brought about the rudiments of the postwar fordist paradigm. It is possible to follow this transformation in every major field of policy.[54] In foreign economic relations, the first important move was the abandonment, in April 1933, of the gold standard, accompanied by the devaluation of the dollar. Even during the isolationist tide of the early New Deal, US trade policies were based mainly on tariff protection, limiting import quotas and export subsidies to agricultural products. Making a definite turn towards free trade, the Cordell Hull trade program (based on the Reciprocal Trade Agreements Act of June 1934), however, ushered in an era of internationalism. On the basis of the "most favoured nation" principle, the United States concluded, in the second half of the decade, a series of reciprocal trade agreements that significantly reduced tariff rates on industrial products.

Perhaps the most conspicuous aspect of the whole New Deal was the regulatory mechanisms it brought to the sphere of production in both industry and agriculture. For industry, the National Industrial Recovery Administration (NIRA), established in 1933, introduced a cartellization scheme freeing business from antitrust laws. In addition to universal price-fixing, and specific production and entry codes for each branch of industry, the NIRA legislation also included important provisions for labour, such as wage increases, and recognition of the right to unionize and to collective bargaining.[55]

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[54] With regard to New Deal policies, I benefited mostly from the following sources: Arndt (1944, chs. 2, 3); Ferguson (1984); Garraty (1973; 1986, ch. 8); Lewis (1949, ch. 8); Romasco (1983, ch. 4); Stein ([1969] 1990, chs. 3-6); Winch (1969, ch. 11). For fiscal policy in particular, the latter two works are of critical importance.

[55] It is interesting to note that especially these industrial policy initiatives formed

(continued...)

The agricultural counterpart of NIRA was the Agricultural Adjustment Administration (AAA) which aided farmers through subsidies, cheap credit, and crop and acreage controls.

When the US Supreme Court ruled the unconstitutionality of the legislative bases of the NIRA and the AAA in 1935 and 1936, respectively, the New Deal was already evolving towards what later came to be known as fordism. The National Labor Relations Board (NLRB), established in 1935 after the abolition of the NIRA, characterized this new stage in the industrial relations system. It took a pro-labour stance by improving conditions for unionization and collective bargaining.[56] The Farm Security Administration, which replaced the old AAA in 1937, provided the agricultural sector with an extensive support program. In its new stage, the New Deal was not limited to sectoral regulation. At the same time, it had recourse to some important "extra-recovery" measures such as the reinforcement of anti-trust laws, Social Security Act of 1935, and tax reform initiatives for income redistribution.[57]

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[55](...continued)
the basis of many attempts to establish analogies between the New Deal and the Nazi/fascist regime of economic regulation, albeit under different political regimes. On the one hand, the Soviet economists continued, until 1935, to view the New Deal as "disguised fascism" (for this, see Day 1981, ch. 8). In the liberal quarters of the West, on the other hand, it has been branded as a "democratic" variant of either "socialism" (Temin 1989, pp. 107-12) or, more fashionably, "corporatism" (Garraty 1973, pp. 912-5 or 1986, ch. 8; Letwin 1989, pp. 649-53; Winch 1969, p. 231).

[56] For the class-organizing effect of NLRB on labour, see Stryker (1990).

[57] Keynesians heavily criticize the New Deal on the grounds that those redistributive social policy measures, as well as the labour provisions of the NIRA and NLRB legislations, were not necessary to stimulate the demand. They often talk about a "tension" between, and a "confusion" of, economic recovery and social reform in the New Deal policy package (e.g., Stein [1969] 1990, p. 90; Winch 1969, pp. 232-5).

The monetary and financial stance of the New Deal was equally innovative. The devaluation of the dollar and bank reform made it possible to ease the terms of borrowing money via lower interest rates, and consequently to launch numerous direct relief and public works programs. While the rhetoric of "sound finance" was not given up until after the onset of a new economic downturn in 1937, heavy spending on relief and public works resulted in consecutive deficit budgets, thus amounting effectively to expansionary financing.[58] The final breakthrough in fiscal policy occurred in 1938 when the Roosevelt administration decided on a deficit-spending program exclusively to stimulate demand. This decision to spend for the sake of recovery also signified an ideological transformation of New Deal politicians.

As in most other countries, economic policy in the United States at the time had to do less with economic recovery in its strict sense than with political experimentation. The Second World War was the single most important factor in the recovery of the US economy from its, and also the world's, worst depression in depth and length. In political terms, however, there were a number of achievements. The protofordist New Deal and its corporatist political environment built on each other.

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[58] According to the theory-centred Keynesian critics, the four consecutive deficit budgets between 1933 and 1936 did not result from countercyclical expansionary financing. They were rather the unintentional and unavoidable consequences of the increased spending and the reduced revenues (Letwin 1989, pp. 649-53; Salant 1989, p. 36; Stein [1969] 1990, chs. 3, 4, 6; Winch 1969, pp. 235-41). This view takes the initial motive behind a policy as the sole criterion in determining the objective posture of that policy. What matters, however, is not the ideological motive but the actual consequence of a policy decision.

Those political forces which backed the New Deal were in turn rewarded by the policy consequences of the latter. Organized labour, for example, was incorporated into the US polity in return for its supportive role.[59] Farmers **en bloc** and the monopolized sections of capital, too, benefited from the New Deal experience.

What factors made the New Deal possible? From the outset, we can eliminate the role of the United States' specific experience of the depression, since its northern neighbour, Canada, which experienced a depression similar in depth and length, responded quite differently in economic policy. As for the role of Keynesian theory, the US "fiscal revolution" occurred independently of Keynes.[60] There were already indigenous proposals in the 1920s for public works and for balancing the budget over a business cycle, not a fiscal year.[61] As a matter of fact, demand stimulus formed only part of the New Deal, whose social and industrial reform initiatives were fiercely opposed by Keynes and his followers.

The ideas that had a stronger impact on the New Deal were institutional.[62] First, we must note the preexistence of an unorthodox monetary view which was quite

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[59] Rhonda F. Levine points out that the incorporation of organized industrial labour into the national process of political bargaining was at the cost of the diffusion of labour militancy into a general consensus for capitalist rule and of the political hegemony of monopoly capital (1988, p. 4).

[60] The term "fiscal revolution" belongs to Herbert Stein who also notes that the US experiment with deficit spending in the 1930s took place without reference to Keynes ([1969] 1990, ch. 7).

[61] For this, see Stein ([1969] 1990, ch. 2); Winch (1969, pp. 237-40).

[62] On US populism and institutionalism, my major source is Winch (1969, pp. 222-32).

prevalent among the agrarian populist movements of the Western States. Since the late 19th century, agrarian debtor circles had been pressing for a reflationary monetary policy against Eastern financial interests. Secondly, the institutional school of economics, which had been embedded in the historical development of US capitalism, counterbalanced the appeal of classical orthodoxy and rendered the policy-makers more sensitive to their social environment. A third intellectual support of the New Deal was the urban progressivism of the 1920s, whose pragmatism had been revealed by such notions as scientific management, social engineering, and planning.

The 1932 Presidential election was the occasion on which the Democratic Party managed to forge the "critical realignment" of the New Deal.[63] To be more precise, the popular coalition which stood up for the New Deal was composed of urban liberal Democrats, organized industrial labour, and independent commercial farmers. This was a weak coalition, however. Its labour component, for example, emerged stronger only well after the New Deal was in progress. The conservative American Federation of Labor (AFL) was not supportive of the pro-labour initiatives of the NIRA and the NLRB. The Committee for Industrial Organization (CIO, later called Congress of Industrial Organizations) as the main union ally of the Democratic Party did not become a force to be reckoned with until the late 1930s.[64] In this sense, the organized

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[63] For the term "critical realignment", see Burnham (1970).

[64] The industrial unionism of the CIO equalled in strength the crafts-based unionism of the AFL during the period 1936-9. By the end of the decade, the CIO and the AFL had about 3.5 million members each, which together represented one quarter of the labour force (Laslett 1989, pp. 535-43).

labour clientele of the New Deal was the creation, rather than the originator, of the latter.

Taking an overall view of the US political economy, we can point out that the New Deal coalition was not defined solely by those intermediate organizations at the popular level. It had a broader class base and was influenced heavily by the institutional features of the US economy. The role of "big business" in this coalition was critical as a result of the split between the protectionist labour-intensive industries and the internationalist capital-intensive sector. Whereas the protectionism of the early New Deal signified a temporary compromise between the two groups, the second New Deal's combination of free trade and internal activism resulted from the victory of the "multinational bloc" involving capital-intensive industries, investment banks, and internationally-oriented commercial banks.[65]

One factor that offset the business split was the trade position of the US economy. The US economy was then one of the most closed economies in the world, probably the most closed in terms of commodity trade, a fact that eased the tension between the domestic-oriented and foreign-oriented businesses. A closed economy means less external constraint with respect to foreign confidence and balance of payments. The relative isolation of the US economy, in this sense, facilitated the launching and implementation of the New Deal policies.

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[65] According to Thomas Ferguson, this "multinational bloc" was the "first successful capital-intensive-led coalition in history" (1984, pp. 61-92). For a similar view of the business impact on the New Deal, see also Gourevitch (1984, pp. 112-5; 1986, pp. 147-53).

It was, however, the financial organization of US capitalism that was a crucial facilitating factor for the New Deal, particularly for its macroeconomic innovation. In sharp contrast to the United Kingdom and the White Dominions, the United States saw a colossal tide of bank failures during the Depression. The crisis in the US banking sector, which was notable for its industrial orientation and for a massive number of small unit banks it accommodated, was intertwined with the industrial crisis, the most severe in the world. This twofold crisis formed a compelling reason for the monetary and fiscal activism of the New Deal. Yet the New Deal innovation in general also required a political framework sensitive to broader popular demands.

US political institutions --a federal state structure combined with decentralized and fragmented parties-- seem at first sight to be very unfavourable to the launching and implementation of a program like the New Deal.[66] To make matters worse, the political and union organizations of the working class were too weak to be heeded. There was not even a Canadian-style "third party" claiming the representation of labour and the farmers at the national level. By European standards, the urban "left" wing of

[66] In fact, Theda Skocpol and Margaret Weir attribute the rise (and demise) of the New Deal to the decentralized and fragmented character of US civil service (see, e.g., Skocpol 1980; Weir 1989, esp. pp. 60-73; Weir & Skocpol 1985). In this view, the key to the New Deal was the openness to innovation of the federal bureaucracy whose fluid and disorderly structure precluded the possibility of establishing any hierarchical control on channels of advice to the government. The weak and fragmented quality of the US national bureaucracy has also been related to the New Deal's eventual failure. That is to say, the innovative fiscal and social policies initiated in the 1930s lacked the central bureaucratic machinery necessary to continue and solidify the New Deal agenda. Alternatively, Herbert Stein attributes the fiscal expansion of the late 1930s to the creation of a "New Deal clientele" in the overall state machinery ([1969] 1990, pp. 105-7).

the Democratic Party was rather an "enlightened" liberal formation, like the UK Liberals, than a reformist social democratic or socialist formation.

Nevertheless, the US polity was equipped with numerous channels of representation open to divergent interests. The patronage system is a case in point: it provided a wide range of domestic groups, including those which were underprivileged in market terms, with a channel of representation at both the Presidential and Congressional levels, as well as at the strictly partisan level. The New Deal's pro-labour initiatives must be taken into account within the context of such crypto-corporatist channels of representation. Organizationally weak as they were, US workers were able to translate their case into the national processes of policy-making due to the preexistence of channels such as patronage. One form of patronage, "lobbying", served the practical purpose of mediating various interests in the legislative and executive bodies. Both workers and farmers extensively "lobbied" during the Great Depression.[67]

In contrast to France, the United States had a majoritarian electoral system. Nevertheless, both proportional representation in France and majoritarianism in the United States were strictly limited to the electoral domain. In terms of political institutionalization, France remained majoritarian whereas the United States conformed

[67] In this regard, we should mention the specific case of the farmers. According to Christian Saint-Etienne, the reason farmers' concern was the "overriding" political objective of the Congress should be sought in the strength of the "farm lobby" which perpetuated the "overrepresentation" of the farm sector in the Congress, despite the rapid urbanization that had taken place since the apportionment of the seats for the lower house, House of Representatives, of Congress (1984, pp. 8-16).

to proportional representation. This explains the difference in performance between the Popular Front and New Deal experiments. Both the Republican and Democratic parties, whose monopoly position in US party system was mainly due to majoritarian electoral rules, were loosely-structured formations open to divergent interests. That is why the New Deal coalition was fashioned within the Democratic Party, whereas the other cross-class and cross-sectoral coalitions at the time, such as those in Scandinavia, were fashioned between (or among) different parties.

In the next section, we take up the economic policies of Nazi Germany and fascist Italy, which both paid lip service to the notion of corporatism. The Nazis and fascists crushed the autonomous organizations of all domestic groups and put every major domestic group under an "estate" or "corporate" order. Both the Nazi "estates" and fascist "corporations" played a representational role. However, they represented the state at the domestic-group level, not the domestic groups at the state level

GERMAN AND ITALIAN NEOMERCANTILISM

In its extensiveness and intensity, the state regulation of economic life was more comprehensive under neomercantilism than under protectionism and protofordism. As it was implemented in the 1930s by Germany, Italy, and Japan, neomercantilism has actually become the most aggressive form of capitalist regulation at both macroeconomic and microeconomic levels. Neomercantilism was even more aggressive

in its Soviet variant, which involved full nationalization and comprehensive planning.[68] In this section, I examine neomercantilism only in its capitalist variant in the cases of Germany and Italy.[69]

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[68] The Great Depression played its role also in the emergence of Soviet economic structures. With the passing of the War Communism of 1918-20, the New Economic Policy of 1921-7/8 had effectively reintegrated the country into the trading and financing network of the world economy. At the turn of the decade, the triumphant option was "socialism in one country" based on a blitz industrialization program. The concrete form this program took on would be the development of capital goods industries, which was aided by surplus transfers from a collectivized agricultural sector. The ideological and political decision for Soviet industrialization drive was made in the late 1920s, with the first five-year plan being launched in 1928. However, the project might have failed had it not been for the balkanization of the capitalist world economy. "Socialism in one country", wrote Karl Polanyi (1944, p. 248), "was brought about by the incapacity of market economy to provide a link between all countries: what appeared as Russian autarchy was merely the passing of capitalist internationalism." For a detailed survey of the shifting alliances, within the Soviet leadership, of the 1920s with regard to industrialization policy to be followed, see Erlich (1960, esp. chs. 1-3, 5, 9). For developments in policy from the early 1920s to the late 1930s, see Lewis (1949, ch. 10); Davies (1989, pp. 1008-44).

[69] On this point, we should take brief note of Japan. In fact, Japan's economic policy stance in the 1930s was a paradigmatic case of neomercantilism. Against the background of a moderate depression, the Japanese economic policies in production, finance, and trade were disproportionately active, which helped to bring about a quick and decisive recovery. In December 1931, Japan went off the gold standard to which it had returned in January 1930, and devalued the yen. In foreign trade, the autarkic measures it had recourse to included the imposition of exchange controls and the creation of a "yen bloc" of self-sufficiency in Eastern Asia, which together shifted the Japanese trade from North America and Europe to Asia, Latin America, and Africa. Japan's industrial policies were even more **dirigiste**. Aside from the expansion of sate ownership in selected industries such as iron and steel, all state-designated "important industries" were subject to specific measures of regulation, which included strategic planning, and compulsory cartellization.

The monetary and fiscal activism of Japan in the 1930s was associated with the name of Korekiyo Takahashi, "Japan's Keynes", who was the Minister of Finance from late 1931 to 1936. Boosted by timely monetary measures such as devaluation and low interest rates, fiscal policy marked a deliberate turn towards expansionary financing beginning in 1932. The specific form this demand stimulus program took on was loan-

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The Nazi Experiment

The first thing to note about Germany is that three full years of depression had elapsed under several minority governments of the Weimar Republic before the Nazis took power in January 1933. These years formed an exceptional period of classical financial orthodoxy in the history of German economic policies.[70] In a mood reminiscent of the UK Labour government's at the time, the Weimar governments responded conservatively to the world economic crisis by sticking with the principles of deflation, "sound finance", and the gold standard.[71] The measures taken for the purpose of stabilizing prices and balancing budgets were familiar ones: reductions in prices; cuts in expenditure including public investment, wages, pensions, and social insurance subsidies; and increases in interest rates and taxes.

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[69](...continued)
financed spending primarily on those capital-goods industries that were closely affiliated with armaments and also on numerous public works, without any increase in taxation. For Japan's economic policies during the 1930s, see Broadbridge (1989, pp. 1136-44); Hadley (1989); Johnson (1982, chs. 3, 4); Lewis (1949, ch. 9); Nanto & Takagi (1985); Yamamura (1972); Yasuba (1988).

[70] For German crisis policies in the pre-Nazi years, see Hentschel (1989, pp. 801-6); Zimmermann & Saalfeld (1988, pp. 309-11).

[71] We should also note that there were striking similarities in policy attitude between the German Social Democratic and UK Labour parties. Just like its UK counterpart, the SPD turned out to be a staunch supporter of liberal economic orthodoxy during those crucial years of decision. This conservatism was symbolically embodied in the person of Rudolf Hilferding, the SPD's Marxist theoretician, who saw the policy of deflation, "sound finance", and the gold standard, as the necessary path to be taken in the absence of the socialization of the means of production. Some lament that both the Labour Party and the SPD missed a historical opportunity during the Great Depression to pave the way for a "Swedish style" postwar program (see, e.g., Martin 1973, pp. 44-5; 1979).

One area in which financial orthodoxy would not or could not penetrate was agriculture which was supported through tariff protection, import quotas, cheap credit, and debt reductions. It should also be emphasized that, in the closing years of the Weimar period, there was a shift towards protection in foreign trade through imposition of exchange controls and the introduction of bilateral clearing agreements. An expansionary turnabout in fiscal policy took place during the last two governments of the pre-Nazi period under the Chancellorships of Franz von Papen and Kurt von Schleicher. Both governments projected, or even initiated in some cases, programs such as public works and subsidies to business to stimulate the economy.[72] Though unsuccessful, the practical importance of these late Weimar initiatives in trade and finance lies in the fact that they formed a policy heritage for the Nazi period to build upon.

The economic policy of Nazi Germany was composed of three elements: autarky in foreign economic relations; **dirigisme** in production and circulation; and a mix of monetary conservatism and fiscal expansion in finance.[73] Like its prede-

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[72] It is also worth noting that the so-called WTB plan, which was sponsored by the German union federation, ADGB, proposed a massive work creation program to be financed out of deficits in the budget of 1932-3. Wladimir S. Woytinsky, who was one of the three authors of the plan, gives us an eyewitness account of the political tension between the SPD and the ADGB with regard to this proposal (1961, 464-72). The same ADGB would, however, consent in 1933 to the Nazi initiative to take all unions under state control (for this, see Rimlinger 1989).

[73] See Landes (1969, pp. 398-419); Maier (1987, ch. 2); Milward (1976, pp. 390-400) on the general characteristics of Nazi economic policies. The following is a list of those works from which I benefited in portraying the post-1933 German economic policy: Arndt (1944, chs. 6, 7); Dobb ([1947] 1963, pp. 374-8); Guillebaud (1939, esp.

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cessors, the Nazi government maintained the gold standard and, hence, the exchange value of the mark, nominally at least. Yet the various other mechanisms it developed in foreign trade made up for any disadvantages that might have resulted from the maintenance of the gold standard and the lack of devaluation. The task of working out these mechanisms fell on the New Plan associated with the name of Hjalmar Schacht who held the posts of the Reichsbank presidency and Ministry of "Economics" in most of the Nazi 1930s. The Plan refashioned the late Weimar trade patterns, such as import licensing, exchange controls, and bilateral payments and clearing agreements, to create an area of economic and political dependency primarily in Eastern and Southern Europe (but also in Latin America) in accordance with the historical doctrine of Lebensraum (living space).[74]

A necessary consequence of the New Plan was complete state control over the foreign trade and payments sector. This in turn shifted the axis of Germany's foreign

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chs. 2, 3, 5; 1941, esp. chs. 2-6); Hentschel (1989, pp. 806-13); Hirschman (1945, pp. 34-40); Kindleberger (1973, ch. 10; 1989); Lewis (1949, ch. 6); Overy (1975); Rimlinger (1989, pp. 592-5).

[74] As I will elaborate in the next chapter, Germany's trade relations with the small countries of Southeastern Europe in particular formed a paradigmatic case of "unequal exchange". The fact that Germany bought the raw materials and agricultural products of the region at a price higher than the world market prices was itself a tactical move to encourage the countries of the region to specialize in the raw materials and agricultural production, and, hence, to discourage their local industrialization. Moreover, through the system of clearing agreements, Germany accumulated huge import surpluses from these countries, which actually amounted to a "commodity loan" by the latter to the former, to use Maurice Dobb's apt definition ([1947] 1963, p. 377). The reason for this was that Germany deliberately delayed the payment of its agricultural imports, which was in the form of industrial products of its own choosing.

economic relations from Western Europe to those regions whose trading patterns were similar to its own. Moreover, the generalized system of payments and clearing agreements eclipsed monetary exchanges in German foreign trade. Thanks to the existence of such a quasi-bartering system, the overvaluation of the mark became an advantage, rather than a disadvantage. The Nazis were able to import as much as possible for a minimum payment in the form of exports.

The Nazi mode of intervention in production and circulation drew on a pragmatic combination of the enforcement of political priorities and the use of market incentives. In respect to prioritization, the Nazis experimented with planning by launching two "four-year" plans: one was in 1933; the other in 1936. These were specific schemes of intervention in selected sectors or industries rather than comprehensive and coherent plans for the economy as a whole. Significantly, they did not include any nationalization of industry or any other sectors. Rather, regulation of private business took the form of determining the general environment for investment through monetary and fiscal policies (currency controls, interest rates, price controls, and taxation), and through more physical measures involving cartellization and direct allocation of resources.[75] Ideologically, agriculture was the favourite area of

[75] There are two conflicting views of the status of the private business in Nazi Germany. Whereas Volker Hentschel (1989, pp. 808-9) maintains that planning and other measures of regulation did not curtail the entrepreneurs' freedom to pursue their interests on "market lines"; according to Peter Temin (1989, pp. 115-7), the centralized "socialist" control over the economy, finance in particular, made the status of the private ownership "nominal". Needless to say, neither market nor socialism defined the then-German economy whose general parameters were primarily capitalist. In the crisis age of liberal capitalism, such experiments as planning, cartellization, and nationaliz-
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experimentation in Nazi Germany. Subsidies, cheap credit, higher prices, and production controls isolated agriculture from domestic and international fluctuations in prices. Moreover, independent peasant farmsteads were made legally inalienable under a central "estate" for agriculture.

The Nazis introduced the "estates" in other sectors as well. Although advertised as an overall restructuring of society, the main purpose of the "estates system" was to control labour by destroying the latter's autonomous organizations. In addition to "estates", numerous other schemes such as "social honour courts", "labour trustees", and the "labour front" were installed in industry under the rhetoric of forming enterprise communities of business and labour. Instead of bringing about coordination and integration in industrial relations, the whole scheme resulted in the restriction of labour mobility, compulsory labour service, women's withdrawal from industrial employment, and the enforcement of low wages. The system was no more beneficial to the very groups, i.e. the Mittelstand, for whom it was meant to be a protective shield against the intrusions of big business and organized labour.[76]

Financial, especially fiscal, policy was perhaps the most innovative aspect of the Nazi economic program. Although there was no devaluation of the mark, domestic monetary policies were mildly inflationary, aiming to control income and consumption.

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ation were a commonplace even in the market-based economies of Western Europe and North America.

[76] As Charles S. Maier puts it, the "defensive corporatism" of Nazi Germany could not or would not protect the Mittelstand of small business, artisanal producers, and the peasantry (1987, pp. 80, 86).

Fiscally, the Nazis proved to be bolder by starting in early 1933 a massive deficit-financed spending program on public works (most notably, highway construction, car manufacturing, and housing) to create jobs and eventually achieve "full employment" to the exclusion of women.[77] In addition, they extended financial assistance to private industries, especially those in the capital-goods sector, through cheap credit, subsidies, and tax rebates. To sum up, direct public investment programs and stimulation of private investment, together, amounted to a countercyclical expansionary financing.

Against the background of a deep depression which was comparable only with that in the United States, the German economy recovered rapidly and decisively around the mid-1930s, thanks to the Nazis' innovative policies.[78] The fact that classical liberalism had never had deep roots in the German political economy was a factor

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[77] According to Keynesians, who argue mainly in technical and moral terms, the Nazi deficit spending on public works was not Keynesianism. For example, Harold James claims that the fiscal policies of Nazi Germany were not Keynesian on the grounds that the motive behind the budget deficits was rearmament, and that the Nazis had no technique of national accounting and were not aware of the multiplier effects of deficit spending (1989, pp. 240-3). See also Arndt (1944, p. 156); Lewis (1949, pp. 95-6); Temin (1989, p. 117) for the argument that the policy of priming the pump was abandoned in the mid-1930s in favour of war economy through rearmament. Notwithstanding these technical and moral interpretations, the fact is that deficit financing was experimented on an extensive basis in Nazi Germany. In this regard, it is immaterial whether or not that spending was made "consciously" and "accordingly".

[78] Whereas the nature of Nazi economic policies is a matter of ongoing debate, the contribution they made to the recovery is hardly disputed. There is even a consensus that, in contrast to the war-induced recovery in most capitalist democracies, the German recovery took place before the beginning of armaments buildup by 1935/6. As R. J. Overy puts it, the elimination of unemployment and the surge of industrial production in Germany were due to cars and roads rather than to tanks and aircraft (1975, p. 477).

conducive to Nazi pragmatism. As in the United States, German industrialization of the late 19th century was heavily influenced by the institutionalist school of economics, as manifested, among other things, by industrial and agricultural protectionism. This protectionist "national economy" heritage and the historical project of Lebensraum formed a convenient foundation on which the Nazi autarkic policies would be based. There was also a shift during the late Weimar period towards protectionism in the form of exchange controls and clearing trade, from which the Nazis learned and benefited. However, neither the historical, nor late Weimar, protectionism of Germany anticipated the institution of autarky under the Nazis.[79]

Germany's economic past was not invariably protectionist. There were also the free trade intervals such as the period immediately preceding the Great Depression of 1873-96 and the Weimar 1920s. We should, therefore, focus on shifting sectoral and class alignments. Each important stage in the timespan from Bismarck to Hitler was characterized by a distinct coalition, with Eastern Prussia's Junkers, the aristocratic class of export-oriented large agricultural producers, playing a critical role.[80] Whereas

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[79] For an opposite view, which sees the late Weimar period as a "rehearsal" of the Nazi period in terms of economic policy, see Garraty (1986, pp. 45-6).

[80] Alexander Gerschenkron is the classical representative of those who place the Junkers at the centre of the German economic and political development (1943). According to him, the Junkers' continuous domination over agriculture, civil service, and the army was the major factor underlying every policy shift from free trade to protectionism and every regime shift from democracy to authoritarianism. More importantly for our purposes, he holds the Junkers directly responsible for the political regime and economic policy of Nazism, arguing that they tried to use Hitler as a lever to the restoration of Junkerdom (1943, esp. pp. 145-63). Although they were crushed politically by the Nazi regime, he continues to argue, they benefited from its

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the brief free trade era of 1865-79 was accounted for by the Junker preference, the protectionism of post-1879 resulted from a coalition consisting of the iron and steel industries, and Junker-dominated agriculture, i.e. the "marriage of iron and rye".

What is usually referred to as the "inflation-generating Weimar coalition" of the 1920s, in contrast, was a different sort of sectoral and class alignment. Behind the policy package containing free trade, deficit spending, social welfare, and incentives to mass consumption, there stood a ruling democratic coalition of the export-oriented electro-technical and chemical industries and organized labour, which was opposed by the old protectionist iron-rye bloc.[81] Due to the onset of the Great Depression and increasing protectionism abroad, the trading position of the electro-technical and chemical industries weakened, thus causing the fracture of the Weimar coalition. Conversely, the protectionist argument of the opposition bloc gained strength. The turning point for domestic and foreign economic policy was 1932 when the formerly free trading industries joined the protectionist steel industries and agriculture. It is worth noting that the protectionist realignment of these forces took place under conditions of an open economy, relative at least to the economies of the United States

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agricultural policies (1943, p. 159): "[...]the agricultural policies of the Nazi government were bound to favor the large estate owners rather than the small and medium-size farms, the Junkers rather than the peasants; all propaganda about blood and soil, nobility of the peasantry, land as the source of racial strength, and so on, to the contrary notwithstanding."

[81] With regard to the Weimar coalition of the 1920s and the Hitler coalition of the 1930s, I rely on the work of James R. Kurth (1979a, pp. 22-4; 1979b), which is in fact an extension of the work of Alexander Gerschenkron. See also Gourevitch (1984, pp. 104-12; 1986, pp. 140-7) for a perspective similar to both.

and France.

While it is true that the late Weimar governments were compelled by the factors spelled out so far to make some moves towards economic closure and expansionary financing, it is also true that those moves fell well short of forming a new policy experiment. The reason for this had to do less with the haunting memory of the hyperinflation of 1922-3, or the balance of payments difficulties caused by the heavy foreign borrowing and war reparations of the 1920s, than with the political crisis of the Weimar Republic.

We must remember that the German economic crisis coincided with a political one, which brought the once quasi-corporatist parliamentary Weimar regime to a deadlock between its legislative and executive bodies. From 1930 onwards, the governments, which had no parliamentary majority behind them, relied more and more on executive decrees to govern.[82] It was also in this period that exchange controls and clearing-trade agreements were initiated. If these measures did not result in autarky, it was because of the fact that, weakened as they were, the parliament, political parties, and unions could still stand in the way. The Nazi solution to the deadlock was, as we know, to get rid of the parliament and all intermediate categories including parties and unions.

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[82] Harold James explains the financial orthodoxy of the period 1930-2 with the exceptional autonomy which the civil service gained under this system of government by executive decrees. According to him, being relieved from parliamentary control, the financially-conservative civil service was given a free hand in the management of monetary and fiscal matters (1989, p. 250).

To conclude, the combined forces of the big business-Junker coalition and institutionalist "national economy" ideology might have ended with French-type protectionism had it not been for the Nazis' political "innovation" including, among other things, the unification of powers and the elimination of autonomous channels of representation. The autarkic closure of a relatively open economy was "feasible" only under the conditions of such a "totalitarian" polity. We should, however, give credit to the Nazis for their innovative approach to fiscal policy. The necessary condition of demand stimulus during the 1930s was an industrially-oriented financial system. With its investment-banking institutions, Germany fulfilled this condition at the highest level. Yet there were three full years of fiscal orthodoxy before the Nazis came to power. The bold experiment with demand stimulus after 1933 was a Nazi innovation.

Compared with their Nazi counterparts, the Italian fascists were conservative in macroeconomic terms. At the microeconomic level, however, the Italians were more innovative than the Germans. Given the semi-peripheral character of the Italian economy, the fascists turned their attention to industrialization and other infrastructural issues.

The Fascist Experiment

The case of Italy shows that a dictatorship can radically change its economic policies according to changing world-historical conditions. Indeed, the fascists, who took power in 1922, tried several policy options, including liberalism during the course

of their rule. For example, with the liberal turn in the world economy in the early 1920s, they had zealously embraced Liberista policies. Here our main interest lies in their neomercantilism, however.

Italy's neomercantilism during the 1930s looked like a semi-peripheral edition of Germany's.[83] Especially towards the mid-decade, autarkic tendencies in foreign trade and finance gained momentum. Relying on the extra-tariff, rather than the tariff, measures of closure, the fascists established an autarkic system of foreign trade, which included import licensing through quotas and prohibitions, export promotion through subsidies, exchange controls, and bilateral clearing agreements. Like the Nazis, they fiercely opposed any currency devaluation by defending the gold standard as witnessed by the fact that Italy joined the gold bloc led by France in order to maintain the exchange value of the lira. Unlike their German counterparts, the Italian fascists could not maintain the gold standard throughout the decade. Following the lead of France, Italy went off the gold standard and devalued the lira substantially in October 1936.

What is innovative about the Italian fascists' economic policy was their regulatory <u>and</u> entrepreneurial intervention especially in industry. The leading role in this regard was played by two institutions, the IMI (Istituto Mobiliare Italiano) and the IRI (Istituto per la Ricostruzione Industriale). Both had originally been designed as recovery organizations to salvage bankruptcies in private industry by extending financial assistance in the form of long-term credits. In the mid-1930s, these

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[83] On Italy's policy response to the Great Depression, I used the following sources: Clough (1964, ch. 7); Kindleberger (1973, pp. 241-2); Maier (1987, ch. 2); Ricossa (1976, pp. 282-90); Shonfield ([1965] 1969, pp. 176-92); Welk (1938, chs. 7-9).

institutions were transformed into state holding companies performing the functions of credit and investment banking, and of industrial entrepreneurship including a variety of activities in the capital-goods sector. As a result, by 1936, Italy was second only to the Soviet Union in terms of the state ownership of the economy.[84] The fascists also experimented with planning of a sectoral kind, imposing cartellization schemes on private industry such as price and production controls and investment licensing. The agricultural sector, where protectionism had prevailed since the mid-1920s, became the chief object of autarky by means of land reclamation, marketing boards, price supports, and the encouragement of independent family farming.

The role of fascist "corporations" in such a system of economic regulation was notable for its absence.[85] Although designed to regulate every aspect of Italian life, these organs turned out to be primarily a device for coercive, and at times persuasive, labour control. The combined "corporate" hierarchy, which was supposed to represent all major groups in the society (including workers and employers), was instrumental in crushing independent labour organizations, prohibiting strikes, and limiting labour

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[84] In this respect, the Italian case is regarded as a prototype of the "mixed capitalism", whose emergence was independent of any fascist influence (Cohen 1988).

[85] Charles S. Maier's comments on what he calls the "modernizing corporatism" of Italy are worth quoting (1987, p. 81): "[a]ctually, the corporations never achieved real regulatory power, much less ownership of assets[...] In so far as state intervention increased, it did so through the organization of the state holding compan., IRI, establishment of the funds for land reclamation (Bonifica Integrale), the creation of national offices for controlling prices and production in cotton, paper, and cellulose, regulation of the banking system, and the buildup for war." It is also important to note that William G. Welk, a contemporary of fascism, made a similar interpretation back in 1938 when the talk of corporatism was at its height (1938, p. 171).

mobility through an internal passport system.[86] To do full justice to the fascists' regulation of industrial relations, however, we should also mention the fact that they established a paternalistic social policy system covering sickness, health insurance, old age, invalidity, maternity, family allowance, unemployment, and the reduction of working week.[87]

Italy's financial policy was conservative in comparison with its industrial policy. Before the 1936 devaluation, fixation with the foreign exchange value of the lira kept domestic monetary policy on a deflationary course. When the early crisis measures, such as high interest rates, restriction of credit, and reductions in wages, simply made things worse, the fascist government responded with fiscal and industrial policies rather than reversing its deflationary monetary course. Fiscally, the government was less orthodox as demonstrated by numerous public works programs to create jobs. The deficit budgets of 1931-7 are partly accounted for by the financing of these programs. It should be emphasized that industrial policy remained as the central axis of the fascist economic regulation.[88]

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[86] The Labour Charter of 1927 was a basic legal embodiment of the fascists' "labour policy". For the text of the Charter, see Clough (1964, pp. 234-5).

[87] These social policy initiatives were complemented with a nation-wide network of the "labour-education and recreation" organizations: Opera nazionale Dopolavoro. An official statement of purpose by the network can be found in Clough **et al.** (1968, pp. 280-4).

[88] It is for this reason that the then-Italian economic policy is called "bastard Keynesianism" meaning the organization of supply, rather than demand, through microeconomic **dirigisme** (de Cecco 1989, pp. 207-14).

Italy's neomercantilist response to the Great Depression had a protectionist antecedent. In its historical development, Italian capitalism followed a pattern strikingly similar to German capitalism. The period stretching from the Risorgimento (unification) to the fascist takeover was one of late-follower industrialization with the state as the driving force. This "industrialization from above", like all its counterparts, presupposed a **dirigiste** mode of state intervention and an industrial banking system to shorten the distance to be traversed. Italy differed, however, historically from Germany (and indeed from the other cases we surveyed) in one important respect: the duality of its economy on a north-south divide. The latter would put constraints on designing nationally-uniform policies.

This was the institutional legacy inherited by the fascists. At first, they tried to do away with it by initiating a radical liberalization program in production, trade, and finance.[89] They cut their flirtation with liberalism short, however, and returned, in the mid-1920s, to the institutional fold with an increased zeal. Before the onset of the world economic crisis, Italy had been on an autarkic course in foreign trade and finance. Following the establishment in 1926 of a central banking system and the return in 1927 to the gold standard with an overvalued currency (the so-called Quota Novanta), the fascist government imposed rigid controls over banking and foreign

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[89] Under Alberto de Stefani's Ministry of Finance from 1922 to 1925, Italian economic policy was "ultra-liberal". The liberalization program of early fascist years included such measures as privatization, tax reductions for business, spending cuts, downsizing in bureaucracy, cuts in social benefits, higher taxes and controls on wages, encouragement of foreign investment, and free trade (Clough 1964, pp. 222-30; de Cecco 1989, pp. 202-7; Welk 1938, ch. 7).

exchange. Beginning in 1925, the government also fought a "battle" for self-sufficiency in grains, which would invite tariff and, mostly, non-tariff measures of protection

The Italians, like the Soviets, opted for autarky in the late 1920s. This did not, however, mean that they had already instituted neomercantilism before the world economic crisis began. The Great Depression had a twofold impact on Italy, without which no adequate understanding of fascist economic regulation can be reached. First, it was instrumental in the completion of fascist-regime institutionalization. And, second, it gave the fascists a "moment of opportunity" to start the second wave of Italian industrialization.

DRAWING CONCLUSIONS FOR THE SMALL STATES

The world-historical crisis of the 1930s was a disruptive and, at the same time, formative event. On the one hand, it destroyed the international and domestic foundations of the classical liberal paradigm. On the other hand, it paved the way for the rise of three alternative paradigms: protectionism, protofordism, and neomercantilism. In this chapter, we have examined the transitions from the classical liberal to new paradigms in the metropolitan context. In making sense of why a metropolitan state switched to one particular paradigm and not another, we gave primacy, first, to the political-regime type and, second, to the financial-system type. In the five metropolitan cases, we established the political-regime and financial-system types as the key factors in relation to other possible explanations.

With its liberal political regime and commercially-oriented financial system, the United Kingdom opted for protectionism. Similarly, the French economic response to the crisis was protectionist under a "permeable" liberalism and an industrially-oriented financial system. Yet France tried and failed to shift to protofordism during the Popular Front governance of 1936-7. The United States succeeded where France failed. The US New Deal was a protofordist response to the crisis under a corporatist political regime and an industrially-oriented financial system. Nazi Germany and fascist Italy tried neomercantilism with a difference in emphasis. With their late-follower pattern of financial organization, both were innovative: the Germans, particularly in fiscal policy and the Italians, mainly in industrial policy.

The impact of these metropolitan responses on economic-policy choices in small states was in terms of foreign trade and finance, regardless of the political-regime and financial-system connections between the metropolitan and small states. As I will detail in the next chapter, the gold-standard position of Canada, Sweden, and Turkey (and their geo-social counterparts) was shaped by the UK decision in September 1931 to leave the gold standard. Sweden immediately followed the UK lead, whereas Canada imposed embargo on gold exports (officially, however, Canada would not go off the gold standard until after the US departure in April 1933). Turkey, which had no direct ties with the gold standard, "pegged" its currency to the French franc in place of the pound sterling.

In terms of foreign trade, the US Hawley-Smoot tariff in 1930 had a definite impact on Canada. The first protectionist shift in Canadian foreign trade policy was

in response to the closure of the US market with this tariff. When the United Kingdom opted for protectionism with the Import Duties Act of 1932, Canada and the two Antipodean Dominions got a "free trade" boost. The United Kingdom made its market more closed to the outside world and more open to the Dominions. The Ottawa agreements strengthened the imperial preferential treatment and aimed to create a "free trade" bloc in an increasingly protectionist world. It was, however, the US Cordell Hull trade program in 1934 that would bring the real free trade to Canada. Just as it took its first protectionist measures in response to the Hawley-Smoot tariff, Canada began to switch to free trade with the Cordell Hull trade program. This would be sealed in the US-Canadian trade agreement of 1935.

Sweden, in contrast to Canada, did not replicate the trade policies of its metropolitan counterparts. It chose a relatively free trade course in its response to UK protectionism and German autarky, and maintained its share of the UK and German markets. It is true that the rise of protectionism in the United Kingdom and of autarky in Germany was not, in itself, a beneficial event for Sweden and Scandinavia in general. Ironically, however, Sweden benefited from the armaments drive of Nazi Germany. The rise of Swedish social democracy went hand in hand with the rise of Swedish iron-ore and ball-bearing exports to Nazi Germany.

In sharp contrast to Sweden, but not to Canada, Turkey replicated the trade policies of its metropolitan partners: in the first place Germany but also Italy. Under the Nazis, the German bilateral clearing-trade drive swept all across the Balkans and created parallel autarkic structures in every country in the region. With their peripheral

economies, the Balkan countries had very limited choices to resist the compulsion of German autarky. Nevertheless, in its industrialization drive, Turkey was able to strengthen the Soviet and UK connections while remaining dependent in trade on Nazi Germany.

In the next chapter, I provide a detailed account of how Canada, Sweden, and Turkey shaped their economic policies in a doubly responsive manner. In doing so, I establish points of divergence as well as convergence between these countries and their geo-social counterparts.

CHAPTER 3

THREE STRATEGIES OF DEFENSIVE ACCOMMODATION TO THE CRISIS

During the interwar period, the main geo-political division of the world outside the core territories of the metropolitan states corresponded to two broad categories: the areas occupied by the formal and informal colonies; and those of the independent and semi-independent small states. The colonial areas were not the site of autonomous policy formation during the Great Depression since they simply did not have indigenous means for economic or political regulation to position themselves in relation to their imperial centres. In those areas which were neither imperial centres nor colonial possessions, states potentially had the capacity to formulate and implement policies suitable to domestic aims, although not necessarily independently of the metropolitan states.

To be more precise, imperial/metropolitan powers, colonies, and the (semi-) independent non-metropolitan powers formed the three tiers of the interstate system. Although the world economy and the interstate system act on one other, they have not converged at all times and places: that is, the three tiers of the interstate system do not correspond to the core, peripheral, and semi-peripheral zones in the world economy.[1] From the world-system perspective, some of those metropolitan powers whose

[1] See Wallerstein (1974b) for an overview of the world-system perspective and its application to 20th-century conditions.

economic policies were studied in the previous chapter belonged to the core and others (namely, Italy, Japan, and the Soviet Union) to the semi-periphery. Moreover, the (semi-)independent non-metropolitan powers of the interwar period showed even a greater diversity within the world economy. They could be found in any zone of the world economy.

The (White) Dominion, Scandinavian, and Balkan states represented the whole gamut of the (semi-)independent non-metropolitan tier in the interstate system. They were also representative of the diversity in world economic position. Whereas Sweden was bordering on the core, the two other Scandinavian countries, together with Canada and Australia, were located unambiguously in the semi-periphery. Likewise, the New Zealand and Balkan economies were unambiguously peripheral. As our prime cases, Sweden, Canada, and Turkey represented the core, semi-peripheral, and peripheral zones, respectively.

Like the metropolitan states, the (independent or semi-independent) small states did not conform to a single pattern in responding to the crisis of the 1930s. Protectionism, protofordism, and neomercantilism, observed in the metropolitan states, also defined the policy diversity of the small states. The Dominions approached protectionism, Scandinavia, protofordism, and the Balkans, neomercantilism. Moreover, the economic policies of Canada, Sweden, and Turkey constituted the most proximate cases of the three policy paradigms.

To what extent was a small-state (i.e. non-metropolitan and non-colonial) position in the interstate system relevant for policy formation in the 1930s? The world

economic crisis as such was not the major external factor affecting the policy behaviour of the small states. It was rather the economic and political response of the large, metropolitan states that had the major external impact on their behaviour.

What make a state a metropolitan power are the relative size of the economic and political resources it commands and the capacity to influence interstate relations. The way in which the metropolitan powers reacted to the Great Depression was relevant for other states in two respects. First, having relatively large amounts of resources at their disposal and a say in interstate relations, some metropolitan powers applied economic and political coercion to target groups of small states to ensure the latter would play a suitable role within the policy framework of the former. Secondly, and more critically, the economic and political behaviour of the metropolitan powers provided models from which other states could learn (i.e., adopt or avoid).

The Dominion, Scandinavian, and Balkan states showed a great diversity in terms of the quality and quantity of the economic resources they controlled (and traded). Variation in resource quality brought about their differences in world economic position. Despite variation in resource quantity, however, they were in the same (small-state) tier within the interstate system. The first reason for this was that their economies were "small" relative to the economies of those metropolitan states they were connected with. The second reason was that these three groups of states did not have any influence on the course of interstate relations.

The small states reacted to the Great Depression with a doubly defensive reflex.

This was the common denominator of their varying economic policies during the 1930s. When the relatively stable relations in the world economy and interstate system came to an end with the onset of the crisis, these states felt increasingly (though on a varying degree) insecure and began to look to the metropolitan states that had been institutionally significant for them. For the Dominions, the UK response to the crisis was especially significant since they had both metropolitan and imperial connections with the United Kingdom. For Canada in particular, another significant metropolitan response was that of the United States as its largest trading partner, among other things. It was, however, in Scandinavia where the volatility of the world-economic and interstate relations was most felt. The Scandinavian countries had to thread a delicate balance between the two opposite metropolitan responses, those of the United Kingdom and Germany. For the Balkans, the most binding metropolitan response was that of Germany, with Italy's coming a distant second.

The defensive accommodation to the crisis took a different form in each one of the three geo-social configurations: protectionism in the Dominions, protofordism in Scandinavia, and neomercantilism in the Balkans. In the exemplary case of Canada, Dominion protectionism was a trade-centred form of response and mode of intervention in general. By contrast, Scandinavian protofordism, in the exemplary case of Sweden, relied on macroeconomic and labour-market/industrial-relations policies, as well as on trade policy. In the case of Balkan neomercantilism, as attempted most aggressively by Turkey, the emphasis was on import substitution, i.e. industrialization, which required microeconomic ("physical") means of intervention both in production

and circulation/trade.

This chapter serves three related purposes: (a) to give a detailed account of the three divergent forms of defensive responses in the cases of Canada, Sweden, and Turkey; (b) to define the divergence within each form (mainly between these countries and their geo-social counterparts); and (c) to prepare the groundwork for our discussion in the three chapters to come. I first present the Canadian variant of Dominion protectionism and contrast it to the cases of Australia and New Zealand. I then take up Sweden's protofordist response and contrast it to two other Scandinavian, namely Danish and Norwegian, experiences. Lastly, I focus on the Turkish case as representing Balkan neomercantilism, by using the Bulgarian, Greek, Romanian, and Yugoslavian cases as a contrast.

DOMINION PROTECTIONISM

When worsening economic conditions demanded a response, the semi-sovereign states of the three Dominions had two policy referents: what they had done historically and what the United Kingdom was currently doing. The policy pattern to emerge out of their responses to the crisis would carry the mark of both. For Canada, however, the United States was another metropolitan connection and policy referent particularly in foreign trade.

In its broader contours, the Dominion policy pattern was largely moulded by trade-oriented initiatives such as abandonment of the gold standard, devaluation, tariff

protection, and participation in the British preferential tariff system. Domestically, the establishment of marketing boards for the export of primary products such as wheat and other subsidies for primary producers accompanied these initiatives. If there was an employment policy to speak of, it was based on industrial tariff protection which aimed to export unemployment, with direct relief being the major form of support to the unemployed. The main difference between Canada and the two Antipodean Dominions was, however, in terms of social protection. While Canada relied primarily on tariff protection, Australia and especially New Zealand combined it with social protection.

In all three Dominions, monetary policy was strictly deflationary whereas fiscal policy was far from being "sound" in its consequences. Despite adherence to the principles of "sound finance" and a balanced budget, increased spending on direct relief made the deficit budgets the rule rather than the exception leading to increases in taxation.[2]

Canada

Canada entered the 1930s with a Liberal government. When the Liberals lost the election of 1930, they were replaced by a Conservative government which would dominate the first half of the decade. Back in power in 1935, the Liberals carried

[2] For the general policy stance of the Dominions, see Alhadeff (1985); Drummond (1972a); Twomey (1985).

Canada into the postwar period. Tariffs were the invariable tool of these governments' intervention in the field of foreign trade and finance.[3] Neither foreign exchange rates nor the gold standard played a major role in Canada's search for a way out of its economic hardships.

Foreign Trade and Finance

When the world economic crisis broke out, Canada's commitment to the gold standard had already weakened. Like most other countries, Canada went off the gold standard between the beginning of the First World War and the mid-1920s. In July 1926, it returned to the gold standard which it would maintain for only two and a half years. Beginning in December 1928, the Department of Finance practically prohibited gold exports, an act which amounted to **de facto** suspension of the gold standard.[4] The Conservative government made this prohibition official in October 1931 following the UK departure from the gold standard. Yet the government would continue to give the appearance of being on some form of "gold basis" until April 1933, when it formally severed the relationship between the dollar and gold. This decision came immediately after US departure from the gold standard.

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[3] A. E. Safarian (1959) even claims that the "only government policy" during the 1930s was the tariff policy.

[4] After December 1928, Canada was objectively off the gold standard which required the free movement of gold internationally. For this, see Brecher (1957, pp. 177-91); Curtis (1931, pp. 109-10; 1932, pp. 321-2); Knox (1939); Marcus (1952, p. 308; 1954, pp. 22-7); Noble (1938, p. 270).

Unlike most other cases, Canada's abandonment of the gold standard was not accompanied by a currency devaluation. Despite strong pressure from the exporters of primary products, Canadian governments did not devalue the dollar. Fluctuations in the external value of the dollar were not so much the result of policy decisions as market responses to the UK and US devaluations. After the UK devaluation, the Canadian dollar rose against the pound sterling and depreciated against the US dollar. After the US devaluation, it rose against the US dollar and depreciated against the pound sterling. Thus, by 1934, Canada restored the pre-crisis relationship of the dollar with the currencies of its two major trading partners.[5] The Canadian dollar was devalued but not as a result of government intervention. Such a devaluation could not, however, make Canadian primary exports competitive in the UK and US markets, given that Canada's competitors, notably Argentina and Australia in wheat, and Scandinavia in pulp and paper, had devalued their currencies on a much larger scale.

Instead, Canada used tariff policy to protect its domestic market and to become competitive in the UK and US markets. The first initiative took place in May 1930, when the Liberal government introduced the "Dunning tariff" as a retaliatory measure against the proposed Hawley-Smoot tariff in the United States. Compared with the changes to come later, the Liberals' tariff change brought about mild tariff increases primarily affecting US goods.[6] After the Conservatives took office in July 1930 with

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[5] For the fluctuations in the exchange rate of the Canadian dollar against the pound sterling and the US dollar, see Brecher (1957, p. 178); Knox (1939, p. 3).

[6] Perry (1955, p. 279).

an overtly "imperialist" and protectionist agenda, the tariff policy was transformed into an overall strategy of job creation, industrial production, and market closure.

The tariff changes made by the Conservative government in the period 1930-3 amounted to the most sweeping upward revision of the Canadian tariff system since the National Policy tariff of 1879.[7] In September 1930, the government imposed several new specific duties, and increased the **ad valorem** duties both for the foreign general and intermediate schedules, and, to a lesser extent, for the British preferential schedule.[8] A second revision, in June 1931, further increased the level and scope of protectionism. In addition to the regular duties such as **ad valorem**, specific, and compound, the government resorted to a series of **ad hoc** duties. In the fall of 1931, for example, an "exchange dumping duty" was imposed on imports coming from those countries whose currency had depreciated against the Canadian dollar.[9]

The Imperial Economic Conference of 1932, held in Ottawa, constituted the

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[7] For the comparability of the "Bennett tariff" of the early 1930s with the National Policy tariff, see Mackintosh ([1939] 1964, p. 164); McNaught (1967); Perry (1955, pp. 278-84); Royal Commission on Dominion-Provincial Relations (1940, book 1, ch. 6).

[8] The Canadian tariff system distinguished three tariff rates: the preferential, the intermediate, and the general. The lowest of the three was the preferential rate which was applied to the British Empire economies. The other two rates were applied to foreign economies. The intermediate rate was for those countries to which Canada granted "most favoured nation" status by treaty; and the general rate, which was the highest of the three, for all other countries. For the text of the "Amendment of the Customs Tariff, 1930 [September 22]", see Stacey (1972, pp. 204-6).

[9] To administer such a complex network of tariffs, the Bennett government moved to establish a Tariff Board. For the details of the Canadian tariff administration, see McDiarmid (1946, ch. 13). See also Stacey (1972, pp. 206-8) for the text of the "Tariff Board Act, 1931 [August 3]".

culminating event in the protectionist and "imperialist" push of the Conservatives. With the Ottawa agreements, the United Kingdom and the Dominions committed themselves to enhance the efficacy of imperial preferential treatment by further raising general and intermediate tariff rates that applied to the outside world.[10] As part of the Ottawa agreements, Canada concluded a new trade agreement with the United Kingdom. Under this agreement, the United Kingdom granted Canada preferential entry into the British imperial market and promised not to reduce general **ad valorem** duties on foreign goods without the consent of the Canadian government. In return, the Canadian government undertook to confine protectionism against British manufactures "only to those industries which are reasonably assured of sound opportunities of success" within Canada.[11]

Although the Canadian tariff rates in the 1930s were modest in comparative terms, they were significantly higher than in the 1920s. In the 1933-4 fiscal year, the equivalent **ad valorem** tariff rates for all manufactures rose to a high of 14% in the

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[10] During the early 1930s, "imperialist" circles both in the United Kingdom and the Dominions were pressing hard for imperial "free trade" or, more grandiosely, a kind of imperial Zollverein to achieve self-sufficiency. While not adding up to such a project, the Ottawa agreements were, nevertheless, a victory of the drive for imperial closure. The agreements had a special importance to the Canadian government. Since 1930, it had been pushing for the closure of the UK market to Scandinavian and, especially, Soviet staples either through high tariff rates or, as it did to Soviet staples, through prohibitive measures (Drummond 1972b; 1974, ch. 4). For the trade diplomacy leading to the Ottawa Conference and agreements, see Drummond (1972c, ch. 3; 1974, ch. 6); Hancock (1942, pp. 215-30). Drummond (1972c, pp. 205-18) also contains the "Ottawa Agreements with the Principal Dominions and with India, signed August 20, 1932".

[11] For the "Ottawa Trade Agreement Between Canada and the United Kingdom, 1932 [August 20]", see Stacey (1972, pp. 209-11); Drummond (1972c, pp. 206-7).

preferential schedule, 25% in the intermediate (treaty) schedule, and 30% in the general schedule from a low of 12%, 17%, and 21%, respectively, in 1928-9. After the peak of 1933-4, tariff protection reached a plateau. The rates for 1936-7 were in this order: 10%, 24%, and 30%.[12] The fact that Canada did not push tariff protection further was a response to the US New Deal's shift towards internationalism.

Following the US (Cordell Hull) free trade initiatives in 1934, "imperialist" Conservatives approached the Roosevelt administration to negotiate a trade agreement between the two countries. When the Liberals took office in 1935, negotiations with the United States were already underway and the Liberal government concluded a trade agreement with the United States in November 1935.[13] With the agreement, Canada granted the United States "most favoured nation" status which, in practical terms, meant the intermediate tariff category applied to US goods. The United States in return granted Canada concessions on a list of goods that made up about two thirds of Canadian exports to the US market at the time. During the rest of the decade, Canada granted "most favoured nation" status to several other "foreign" countries, a practice which would increase the importance of the intermediate schedule at the expense of the general schedule in the Canadian tariff system.

Before the 1930s closed, Canada was on a course towards freer trade. A

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[12] Mackintosh ([1939] 1964, pp. 166-7/tab. 19).

[13] This was the first successful trade agreement between Canada and the United States after the "Reciprocity Treaty" of 1854-66. See McDiarmid (1946, ch. 12); Perry (1955, pp. 282-4) for Canada's bilateral commercial treaties with "foreign" countries, the United States in particular, during the 1930s.

reflection of this was the renewal, in 1937 and 1938 respectively, of the 1932 agreement with the United Kingdom and the 1935 agreement with the United States. The new agreements further lowered the level of Canada's tariff protection against its two largest trading partners.

Production and Employment

Industrial policy was the weakest aspect of Canada's response to the crisis. Whereas the agricultural sector saw some elements of direct regulation especially in marketing, the industrial sector did not form the subject of any overall state activity other than tariff protection. Until the Second World War, the state did not assume a direct role in regulating the conditions of industrial production and employment.

The establishment of the Wheat Board in 1935 constituted the most important event in Canadian agricultural policy throughout the 1930s.[14] In fact, the governments' agricultural policy was first and foremost a wheat policy because of the crucial importance of the wheat crop in the economy. When the wheat-growing Prairie provinces, especially Saskatchewan, were hit hard by the depression and natural disasters such as drought, both the federal and provincial governments initially tried to cope with the problem with direct, "human" relief. Later on, they began to take

[14] To be more precise, this was the second establishment of a wheat board in Canada. The activities of the first wheat board, which had been established in 1919, were discontinued after the crop year of 1919-20. Later in the 1920s, the three Prairie provinces (Alberta, Saskatchewan, and Manitoba) organized their own wheat pools which would carry on pooling until 1931. See Fowke (1957, ch. 11); Patton (1937).

more "economic" measures such as easing the conditions of the farmers' debt payment and launching farm rehabilitation programs.[15] The first global response to the problems of the wheat economy, however, was the establishment of the Wheat Board.

When the federal Conservatives established the Wheat Board, they conceived of it as a voluntary marketing agency and an alternative to the "open market system" of the Winnipeg Grain Exchange.[16] The duties of the Board included price-fixing, purchasing, storing and transportation, and domestic and export selling. During the period 1935-8, the Board actually supported the wheat growers with a floor price policy. It continued to function as a voluntary agency in the rest of the decade despite the fact that the Liberals attempted in 1938 to do away with it altogether. Finally, in 1943, the same Liberals reorganized the board as a compulsory marketing agency responsible for all Canadian wheat.

The regulatory capacity of the Canadian state was weaker in industry than in agriculture. For the duration of the period, the state's industrial approach was driven by trends in private industry. This situation was not a necessary consequence of the federal state's "physical" absence from the industrial sector.[17] The United States

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[15] For example, the Saskatchewan provincial government initiated a debt adjustment program in 1933. Federally, the Dominion government moved in 1935 to organize a scheme of land utilization and settlement in the Prairies to cope with the problem of drought in the region (Stewart 1939).

[16] Fowke (1957, ch. 14); Patton (1937); Pomfret (1981, ch. 7). For the "Canadian Wheat Board Act, 1935 [July 5]", see Stacey (1972, pp. 219-21).

[17] Federal state ownership in Canada was restricted to certain public utilities. In addition to those utility companies already in place, most notably a major railway system, the federal state established in the 1930s two new companies, one being in air transportation and the other in broadcasting.

provides us with a comparative perspective. The US federal state lacked even the level of ownership its Canadian counterpart enjoyed in certain public utilities. Yet it produced a New Deal whose industrial regulation from within contrasted sharply with the Canadian policy of industrial protection from without. The Roosevelt administration in the United States instituted a public cartellization scheme for all major industries and a new system of industrial relations. In contrast, the Bennett government in Canada fell behind the trend in cartellization of private industry and enforced public cartellization only in selected fields, such as railway transportation in which the state had a major share.[18]

How then to locate the "Bennett New Deal" in Canadian economic policy during the 1930s? The policy content of this aborted initiative should be seen as a protofordist counterfactual to the prevailing pattern in industry and labour-capital relations.[19] Behind the initiative was the same government that accepted tariff protection as its central industrial strategy. In January 1935, towards the end of the

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[18] The cartellization scheme in railway transportation involved the two major companies, one being the state-owned. For the "Canadian National-Canadian Pacific Act, 1933 [May 23]", see Stacey (1972, pp. 240-1).

[19] At this point, we should mention another "New Deal" initiative in Canada during the 1930s. Beginning in November 1933, the Liberal provincial government of British Columbia launched an economic and social program which came to be known as the "Little New Deal" (Ormsby 1962, esp. pp. 294-6). In fact, this provincial program proved to be the boldest industrial and social policy experiment in Canada throughout the period. In contrast to its federal counterpart, the British Columbia "New Deal" did actually produce a number of concrete policy results. Among them were the establishment of various regulatory boards (such as product control boards, an industrial relations board, an agricultural marketing board, and a council of economists) and the legal enforcement of minimum wages, maximum hours of work, and improved welfare services.

Conservative government's mandate, Prime Minister R. B. Bennett launched a public campaign for social reform by declaring that the "old order is gone".[20] The ideas promoted in that campaign formed the basis of a package of social and economic legislation that was enacted in the summer of 1935. For agriculture, the "New Deal" legislation included the regulation of credit conditions and the marketing of products. For industry, it included unemployment insurance, a weekly holiday, minimum wages, maximum hours of work, and a trades and industry commission to oversee the practices of cartellization in the private sector.

The Bennett reform legislation was, however, politically and Constitutionally doomed to failure. After winning the election of 1935, the Liberals formed a new government and referred, in 1936, the reform legislation for Constitutional validation to the Supreme Court of Canada and, ultimately, the Judicial Committee of the Privy Council in the United Kingdom as Canada's final court of appeal. Endorsing the earlier opinion reached by the Supreme Court of Canada, the Judicial Committee declared, in January 1937, virtually the whole reform legislation **ultra vires** of the jurisdiction of the federal government.[21] The Judicial Committee decision was merely legal

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[20] From Bennett's radio speech quoted in Brown & Prang (1966, p. 243).

[21] To be more specific, according to the final decision of the Judicial Committee, five of the eight Acts were completely **ultra vires**: Employment and Social Insurance Act, Weekly Day of Rest in Industrial Undertakings Act, Minimum Wages Act, Limitation of Hours of Work Act, and Natural Products Marketing Act. Of the remaining three Acts, the Farmers' Creditors Arrangement Act and Section 498A of the Criminal Code were successful in the Constitutional test whereas the Dominion Trades and Industry Commission Act was declared partly **ultra vires** (Scott 1937). The Judicial Committee removed the Trades and Industry Commission's power to oversee the price-fixing agreements (for this last point, see Finkel 1979, p. 41).

confirmation of a political death that had already occurred.

Following this decision, the Liberal government appointed a Royal Commission in August 1937 to investigate the possibilities for increasing federal powers in the field of social policy among others. The establishment of this Royal Commission (on Dominion-Provincial Relations) was arguably the most important event of the second half of the 1930s not only in social policy but also in general economic policy. The Commission reported back in May 1940 with a social reform package similar to the Bennett "New Deal".[22] By then, Canada was already on a "war economy" footing, which would enormously increase the regulatory capacity of the federal government in industrial and social policy areas.[23]

Unemployment constituted the most visible human aspect of Canada's "Dirty Thirties". The major strategy of the governments (federal, provincial, and municipal) was providing the unemployed with direct relief or the "dole" rather than creating jobs through indirect relief or public works programs. Since the federal government did not

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[22] With regard to social policy, the Royal Commission on Dominion-Provincial Relations (1940, book 2, pp. 24-49) recommended legislation for minimum wages, maximum hours of work, fixing the age of employment, and, as we will see shortly, unemployment insurance.

[23] Wartime economic regulation placed the federal government at the centre of economic activities, a development unprecedented in Canadian history. Through a series of newly created agencies, such as the Department of Munitions and Supply, Wartime Industries Control Board, and Production Board, the federal Liberal government was in fact experimenting with overall planning on the one hand and actively engaging in production and marketing on the other, so that, by 1943, public investment would account for 42% of total investment (Phillips & Watson 1984; Wolfe 1984). The dismantling of this structure in the immediate postwar period is, of course, another story.

have jurisdiction over the direct management of unemployment issues, the principal responsibility in this respect lay with the provincial and, ultimately, municipal governments. The direct relief system worked in the following manner. The federal government transferred money as grants-in-aid to provinces through unemployment relief legislation first enacted for the fiscal year 1930-1 and then extended on a yearly basis until 1938-9. In turn, the provinces financially supported the municipalities which, also relying on their own resources, organized the actual relief efforts. In this system, the burden of aiding the unemployed fell disproportionately on the municipalities.[24]

Relief works did not have a significant place in Canadian policy. Although the municipalities resorted to relief works in the early years of the depression, they turned to direct relief after depleting their resources and becoming increasingly dependent on provincial and federal resources. The federal government organized some relief works programs on an **ad hoc** basis. The most conspicuous of these programs were the "relief camps" organized in 1933 for "transients", unemployed single men who were not

[24] So that, in 1935, the mayors of the large cities organized a campaign for what was aptly called "relief from relief" (Taylor 1979). They demanded direct federal and provincial responsibility in taking care of the unemployed. The municipalities would, however, remain the principal level of government in charge of unemployment relief throughout the 1930s. For example, the case studies of the Toronto metropolitan area (Riendeau 1979) and London, Ontario (MacKinnon 1990, esp. p. 81) show that, in the absence of a national unemployment insurance or large-scale public works, the "dole" (and the social stigma associated with it) became institutionalized at the municipal level.

eligible for direct relief in any locality.[25] An overall view of the period, however, will reveal that relief works played only a supplementary role to the mainstream direct relief. During the years 1932-9, the proportion of persons on relief works (indirect relief) to direct relief (dole) recipients fluctuated only between 5 and 10%.[26]

Canada did not establish a federally-organized unemployment insurance system until after the beginning of the Second World War despite various legislative and administrative initiatives, not to mention social pressures, to do so during the 1930s. The first initiative in this regard was the Employment and Social Insurance Act of 1935 as part of the aborted "New Deal" legislation.[27] Before the legal demise of this Act, the Liberal government established in May 1936 a National Employment Commission to administer and investigate the existing relief system. In its final report of January 1938, the Commission recommended a system of unemployment insurance

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[25] Since the "transients" were homeless, municipalities and provinces did not consider them as residents and did not accept to give them direct relief money. The "relief camps" into which these people were gathered were not relief works in the economic sense of the term. Modelled after the US Civilian Conservation Corps, the camps rather served the purpose of social control under the management of the Department of National Defence. Even in that capacity, however, they represented the first direct federal involvement in the relief administration (Struthers 1983, p. 81). In 1936, they were closed by the Liberal government.

[26] Calculated from Bryce (1985, pp. 10-2/tabs. 1, 2). The data are for all three levels of government. The category direct relief includes drought-area relief and agricultural relief, in addition to unemployment relief as its core element.

[27] The 1935 Act stipulated a contributory unemployment insurance system. Workers (40%), employers (40%), and the federal government (20%) would share the financing of an unemployment insurance fund to be established. It adopted the principle of flat-rate benefits and excluded from coverage those already unemployed, and those working in agriculture and some other primary areas (Cuneo 1980). Overall, it covered 56% of working people (Finkel 1979, ch. 6).

and aid under the administration of a federal employment agency.[28] Later on, the Royal Commission on Dominion-Provincial Relations came out with a similar scheme.[29] When the recommendations of these two commissions and the requirements of the "war economy" coincided, the Liberal government finally moved on the issue. In August 1940, a national contributory unemployment insurance system was established.[30]

The Monetary and Fiscal Framework

Finally, we should highlight the "macroeconomic" context in which policies towards trade, production, and employment were implemented. In monetary terms, Canada spent most of the decade trying to institute a central banking mechanism. The federal governments strove in the meantime to maintain the deflationary tenets of classical orthodoxy as long as possible. Although these governments were as

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[28] National Employment Commission (1938, pp. 27-34). The final report of the Commission demanded direct and full federal responsibility concerning unemployment policy, by pointing out that the existing federal involvement in unemployment aid (in the form of grants-in-aid to the provinces, and federal or federal-provincial relief works) amounted to **de facto** acceptance by the federal government of partial responsibility concerning the issue. Consequently, it proposed a federal Employment Service to administer unemployment insurance and unemployment aid, and also to coordinate any form of activity other than these two.

[29] Royal Commission on Dominion-Provincial Relations (1940, book 2, pp. 24-40, 131-6).

[30] The Unemployment Insurance Act of 1940 became possible after a constitutional amendment giving the federal government exclusive jurisdiction over unemployment insurance. The 1940 Act adopted the principle of graded benefits and its coverage was larger than that of the 1935 Act (Cuneo 1979; Struthers 1983, ch. 6).

committed to fiscal orthodoxy as to monetary orthodoxy, they could not balance the budget in any fiscal year of the 1930s and were objectively on a "deficit-spending" course, not necessarily one of expansionary financing.

At the time the depression struck, Canada did not have a central bank and it would not have one until after the worst effects of the depression were left behind. Prior to the establishment of the Bank of Canada in 1935, a quasi-central banking mechanism was in place. Since 1914, the Department of Finance had had responsibility for monetary policy including note-issuing in accordance with the Finance Act.[31] In addition, the Canadian Bankers' Association, incorporated in 1900, managed changes in interest rates on deposits charged by commercial banks.[32] In the absence of the gold standard, however, this piecemeal system was not a substitute for central banking.

The first move to establish a central bank took place in July 1933, when the Conservative government appointed the Royal Commission on Banking and Currency in Canada. In its report of September 1933, the Commission emphasized the need to establish a central bank in view of the fact that every small European country had

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[31] The Finance Act of 1914 coincided with Canada's departure from the pre-First World War gold standard. Later amended in 1923, the Act provided a general framework for Canadian monetary policy during the period 1914-35. Under this legislation, the Department of Finance as a civil service department was the technical body implementing monetary policy while the Treasury Board consisting of cabinet ministers and political heads of the departments was the final authority on monetary policy. On this, see Curtis (1931, pp. 107-17; 1932); Plumptre (1940, p. 283).

[32] Plumptre (1940, p. 127).

already done so.[33] Upon this recommendation, the Conservative government prepared the Bank of Canada bill to be enacted in July 1934.[34] The Bank of Canada began operations in March 1935 by taking over note-issuing powers from the Department of Finance. At the time of inception, the Bank was a privately-owned and privately-managed institution. Later, in two separate moves (one in 1936, and the other in 1938), the Liberal government took the bank under full state ownership and management.[35]

The establishment of the Bank of Canada changed little in Canadian monetary policy during the 1930s.[36] Both Conservatives and Liberals generally maintained the course of deflation. In the first half of the decade, however, there were two attempts at monetary reflation of a limited degree: one in November 1932, when the government encouraged the commercial banks to lower their interest rates on credit; and the other in June 1934, when the government actually increased the Dominion note issue without gold coverage.[37] Reflationary activities of the Bank of Canada remained

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[33] Royal Commission on Banking and Currency in Canada (1933, p. 66). Ironically, two of the three Canadian commissioners (the other two commissioners, one being the chairman, were from the United Kingdom) dissented from the proposal for a central bank in Canada (for their dissent report, see Royal Commission on Banking and Currency in Canada 1933, pp. 84-97). Thus, the majority report proposing a central bank for Canada was thanks to the two UK (and one Canadian) commissioners. For a detailed description of the Commission's activities, see Bordo & Redish (1987); Brecher (1957, pp. 158-9); Plumptre (1940, pp. 187-8).

[34] For the "Bank of Canada Act, 1934 [July 3]", see Stacey (1972, pp. 257-60).

[35] For these developments, see Finkel (1979, ch. 8); Plumptre (1940, pp. 145-9).

[36] For some, in Canada there was simply no monetary policy other than exchange rate policy (e.g., Plumptre 1934, pp. 165-70; Safarian 1959).

[37] Brecher (1957, ch. 9); Knox (1939, pp. 28-44).

limited in the second half of the decade as well. As a result, the wholesale price index (1926=100) that stood at 96 in 1929 was at 85 in 1937.[38]

Federally, fiscal policy paralleled monetary policy. Governments, Conservative and Liberal alike, used fiscal policy in a procyclical direction.[39] This did not, however, mean in practice that expenditures and taxes were reduced. There was actually a substantial increase in the level of spending and taxation. Throughout the 1930s, federal budgets were continuously in deficit despite the fact that the governments were ideologically committed to the principle of "sound finance" and, more importantly, that Canadian fiscal policies were more active on the taxation side than

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[38] Mackintosh ([1939] 1964, pp. 76-7/tab. 5).

[39] In financial policy, some provincial governments were more innovative than their federal counterpart.

The "Social Credit" legislation in Alberta is a case in point. After taking office in 1935, the Social Credit Party moved to legislate a program of expansionary financing based on the proto-Keynesian "social credit" theory of Major C. H. Douglas. The subsequent "Social Credit" legislation included, among other things, reductions in interest rates to provide cheap credit for the benefit of primary producers, a moratorium on debt collection, prevention of foreclosure for debt, and reorganization of the banks as community-controlled credit institutions (Macpherson [1953] 1962, ch. 7; Mallory 1954, chs. 5, 6). This experiment was, however, aborted since it was confronted by a three-tier authority hierarchy, namely the lieutenant governor in Alberta, the Dominion government, and the Supreme Court of Canada. Part of the proposed legislation had been subject to the reservation of the lieutenant governor. The "Social Credit" legislation itself was disallowed by the Dominion government, and declared by the Supreme Court of Canada **ultra vires** of the provincial jurisdiction.

Another provincial attempt at expansionary financing was made by the Liberal government in British Columbia (Struthers 1983, p. 112). After launching a program of deficit spending to fight the depression, this government, too, was on a course of clash with the Dominion government.

Finally, we should mention the Union Nationale government in Quebec, which provided the agricultural small producers with cheap credit and other subsidies throughout the second half of the 1930s (Quinn 1963, ch. 5).

on the spending side.[40] The increase in tax revenues was far exceeded by the increase in expenditures required to provide direct relief and to finance the state-owned railway company (CN).

The core of the federal crisis budget was direct-relief spending mainly through grants-in-aid to provinces. Within this limitation, governments intermittently resorted to public-works spending to stimulate the economy. In 1930-1, for example, the Conservative government favoured a policy of subsidizing indirect relief (public works in a looser sense) rather than direct relief.[41] Again during the "New Deal" overture, the same government initiated a series of federal public works to create jobs in the construction industry. As for the Liberal government, the "Keynesian turn" in its fiscal policy occurred in the late 1930s when the practice of deficit-financed spending on public works was no longer a novelty in comparative terms. Thus, beginning in 1938, the Liberals moved cautiously to establish federal public works programs through deficit financing.[42] Not until the advent of the war economy would they make a full use of the state budget as an instrument of economic stimulation.

In view of the social demand for jobs, the Canadian experiment with public-works spending was "too little, too late". The preferences of the federal government's crisis spending policy are shown in the way it disbursed money to the provinces

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[40] Harvey J. Perry (1955, p. 292) attributes the inadequacy of the budget revenues to meet expenditures to a "feeling" on the part of the Dominion government "that taxation sufficient to balance budgets would be an intolerable burden" on the population.

[41] Plumptre (1934, p. 165).

[42] Neatby (1969, p. 111); Struthers (1983, p. 190).

between 1930 and 1938. Given the fact that virtually all of the federally initiated public works during this period were financed at the site by the provinces, such a breakdown of expenditures also shows how the federal government's commitment to the job creation option was limited. About 67% of the total federal money in question was spent on direct relief, 23%, on public works, and 10%, on other relief programs including, most notably, agricultural aid other than direct relief.[43]

In terms of the sheer size of budget deficits, Canada was objectively on a par with those Western democracies that experimented with deficit spending during the 1930s. For all three (federal, provincial, and municipal) levels of government, the proportion of total (direct and indirect) relief and public welfare expenditures to the national income increased from a low of 1% in 1929 to a high of 8% in 1935 and was 7% as of 1937.[44] In human terms, a more telling indication of the extent of Canadian relief spending was the population covered. Between 1932 and 1939, the proportion of the population on some form of relief to the total population fluctuated between a low of 8% in 1939 and a peak of 12% in 1933, the trough of the depression.[45] What distinguished Canadian "deficit spending" from others was its direction and organization. Direct relief accounted for most of the budget deficits which were in turn

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[43] Calculated from Struthers (1983, p. 220).

[44] Royal Commission on Dominion-Provincial Relations (1940, book 1, p. 162/tab. 56). According to the same source, the proportion of all federal, provincial, and municipal expenditures to the national income was slightly more than 26% in 1937 (1940, book 1, p. 202).

[45] Bryce (1985, p. 12/tab. 2).

diffused between different levels of government.[46]

In the meantime, governments tried to balance budgets by increasing both direct and indirect taxes. Although the increases in taxes could not catch up with the deficits in budgets, taxation was the active aspect of Canadian fiscal policy in the sense that governments had a freer hand in determining its scope and composition.[47] The total taxes at all levels of government jumped from 17% of the national income in 1930 to 27% in 1933. After 1933, the proportion of total taxes to national income gradually decreased until 1939, when it was still above 21%.[48] In the case of the federal government, customs duties were a major source of revenue. However, the share of customs duties in the total federal revenue dropped from 42% in 1930 to 24% in 1937.[49] One factor accounting for this drop was the increasing share of internal taxes in federal revenues. The other factor was the relative closure of the Canadian market to "foreign" imports. Thus, the protective aspect of the tariff policy increased at the

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[46] In this respect, the comment of the Royal Commission on Dominion-Provincial Relations is worth noting (1940, book 1, p. 173): "[d]eficit spending occurred on a large scale, but because of the unrelated policies of numerous governments, it did not produce, assuming it was necessary and desirable, the most efficient results[...] Had the relief deficits been centralized in the one authority which had control of monetary policy and possessed the national powers of taxation, the money could have been obtained at considerably lower interest rates and could have been spent effectively as part of a general and co-ordinated employment and recovery program."

[47] On Canadian taxation policy during the 1930s, the most detailed account that I came up with is in Perry (1955, esp. chs. 17-9). See also Alhadeff (1985); Brecher (1957, ch. 11); Horn (1984); MacGregor (1936); Wolfe (1984, p. 50).

[48] Perry (1955, p. 275).

[49] Calculated from Royal Commission on Dominion-Provincial Relations (1940, book 1, pp 130, 177 for the years 1930, 1937, respectively).

expense of its revenue-generating aspect.

We can distinguish a clear pattern from among the details of Canadian economic policy during the 1930s. Federal governments relied primarily on trade policy to fight the depression. Tariff changes, together with marketing arrangements in wheat, were the only measures taken to counter the crisis at the economic level. Governments did not resort to currency devaluation as a measure of export promotion. Nor did they tackle the problems of production and employment in ways other than industrial tariff protection and agricultural marketing arrangements. Direct relief was the major form of help which the unemployed and depressed primary producers could get from Ottawa. However, the sheer size of direct-relief spending by federal governments also shows that they were not insensitive to the "human" aspect of the crisis. Relief spending in general was one major cause of the continuous budget deficits in the 1930s. Deficits aside, Canadian fiscal (not to mention monetary) policy was driven by the depression, not **vice versa**.

Australia and New Zealand

The Antipodean Dominions differed from Canada on two main points. First, they were more effective than Canada in the timing and implementation of similar policy measures such as abandonment of the gold standard, currency devaluation, and industrial tariff protection. Second, the Australian Commonwealth (i.e., federal) and

New Zealand governments made interventions in some areas, such as industrial relations, where the Canadian federal government was absent or at least "laggard" for the duration of our period. Accordingly, we will establish the economic policies of Australia and New Zealand as contrasts to the case of Canada within the general framework of Dominion protectionism.

Unlike Canada, Australia tried to cope with the crisis with a Labor government from October 1929 to December 1931. In terms of economic policy, however, similarities between the two Dominions abounded. Like Canada, Australia was practically off the gold standard before the full effects of the depression were felt domestically. After imposing export controls on gold in November 1929, the Labor government officially departed from the gold standard in January 1931.[50] The departure from the gold standard was followed by a substantial currency devaluation, exchange controls, and the adoption of a sterling-exchange standard (i.e., entrance to the "sterling bloc"). No matter what propelled the government to devalue the national currency, the measure itself made Australian primary exports competitive in the UK market.[51]

Yet the most important measure taken with regard to foreign trade and, indeed,

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[50] Eichengreen (1988); Knox (1939, pp. 49, 58).

[51] The predominant view about the Australian devaluation is that it came out of market necessity rather than government deliberation (Knox 1939, p. 49; Plumptre 1940, p. 391; Schedvin 1970, p. 156). Whether it was out of necessity or not, the devaluation was timely and beneficial in its consequences.

economic policy in general were the industrial tariff increases, the "Scullin tariff" of November 1929, named after the Labor Prime Minister Scullin. While the country tried three more governments in the 1930s (namely, the United Australia government of 1931-4 and two successive coalitions formed by the United Australia and Country parties in 1934 and 1937), no significant change took place in the "tariff wall" policy drawn by the Labor government. Of the three Dominions, Australia had the highest level of tariff protection throughout the period.[52] Whereas the industrial sector was protected defensively, the primary sector was the subject of offensive protection in the form of currency devaluation and export bounties.

As in the case of the Canadian federal government, the Commonwealth government relied primarily upon tariff policy to deal with the domestic problems of the private sector. This "arm's length" approach to industry was despite the fact that the government became institutionally better equipped to intervene in the post-1929 period with the establishment of the Loan Council as an agency of central economic policy.[53] In contrast, the government intervened in agriculture on a direct basis by supporting export-oriented small producers with various forms of subsidies. As for unemployment, direct relief rather than job creation formed the major axis of the Commonwealth "employment" policy. Australia would not establish a national

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[52] Castles (1988, p. 94).

[53] On the Loan Council, see Schedvin (1970, pp. 87-95).

unemployment insurance system until 1944.[54]

The monetary and fiscal stance of the Australian Labor government was quite similar to that of its UK counterpart, i.e. the minority Labour government of 1929-1931. The orthodoxy of deflation and fiscal retrenchment guided the Australian government in these first crucial years of the depression. From a nationwide perspective, however, Australia was closer to Canada in financial policy than it was to the United Kingdom. Like Canada, it did not have a full-fledged central bank until the late 1930s.[55] Although the Commonwealth Bank of Australia had gradually been given increasing powers including note-issuing since its establishment in 1911, it was still a privately-owned semi-central bank. While maintaining this status of the Bank, the Labor government assigned it to the task of implementing the sterling-exchange standard, a full central bank function in practical terms.

With the exception of minimal unorthodox measures such as the reduction in interest rates, the Commonwealth government aimed at deflation and balanced budgets. And it was more successful than the Canadian federal government in the implementation of these orthodox policies. The two crucial developments that made such a difference were the wage-fixing decisions in 1931 of the Commonwealth Court of Conciliation and Arbitration, and the "Premiers' plan" in June 1931. As the sole

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[54] As in the Canadian case, the establishment of the Australian unemployment insurance system passed through a prolonged process of negotiation between the two levels of government. The unemployment insurance legislation of 1944 became possible only after a Constitutional amendment which made the welfare services a Commonwealth rather than State responsibility.

[55] On central banking in Australia, see Plumptre (1940, pp. 86-96).

authority on industrial disputes and wage settlement, the Court used its powers at the service of financial orthodoxy first by adjusting wages to the "reduced cost of living" and later on by ordering a real wage cut of 10%. In doing so, the Court departed from the "living wage" concept which it would restore in 1937.[56] The "Premiers' plan" paralleled the Court decisions. With this plan, the governments of the Commonwealth and six States agreed, among other things, to reduce all government expenditures by 20% and to increase taxes in order to restore balanced budgets.[57]

If Canada was at the "liberal" extreme of the Dominion pattern of economic policy, New Zealand was at its "social" extreme. In fact, New Zealand had a distinct place among the three Dominions in terms of responding to the crisis. Under a Labour government in the second half of the 1930s, the country took an innovative course especially in social policy.

During the first half of the 1930s, New Zealand had been governed first by a coalition of the Liberal/United and Reform parties until 1931 and thereafter by the National Party (which emerged out of the electoral alliance/fusion of these two parties). With the notable exception of the Unemployment Act of 1930 which established a voluntary unemployment insurance scheme, the economic policies of the governments in that particular period echoed those of the Canadian and especially

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[56] Castles (1988, ch. 7).

[57] On the "Premiers' plan", see Alhadeff (1985); Fisher (1934, pp. 766-73); Green & Sparks (1988); especially Schedvin (1970, chs. 10, 11).

Australian federal governments. The measures taken with regard to foreign economic relations were composed of tariff increases, departure from the gold standard, currency devaluation, exchange controls plus export licensing, and establishment of a sterling-exchange standard.[58] While no significant development took place in industrial policy, there were a number of financial initiatives that perfectly replicated the Australian model of "active orthodoxy". These included reductions in interest rates, wage and salary cuts, and tax increases to curb budget deficits. An important development in institutional terms was the establishment in 1934 of the Reserve Bank of New Zealand as a privately-owned central bank with note-issuing monopoly.

The Labour Party's assumption of power in 1935 marked a breakthrough in New Zealand economic policy. With Labour at the helm, state intervention in various aspects of the economy increased both quantitatively and qualitatively.[59] First, in 1936, the Labour government began to take over the entire sphere between local production and the final (domestic or foreign) destination of primary products. For this purpose, the government encouraged the cooperative movement and created two new marketing agencies: a Primary Products Marketing Department responsible for the purchasing at a guaranteed price and sale of export (namely dairy) products; and an Internal Marketing Division for doing the same for domestic-oriented primary products.

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[58] On the pre-1935 economic policies in New Zealand, see Belshaw (1933, pp. 758, 760-76); Hawke (1988).

[59] Concerning the economic policies of the Labour government, I draw primarily on the work of Alexander Brady (1941, pp. 225-32; [1947] 1958, pp. 277-83). See also Plumptre (1940, pp. 115-21) for developments in the field of central banking.

Moreover, beginning in 1938, the government moved towards planning for import-substituting industrialization, which brought further restrictions on foreign exchange and imports.

Secondly, this interventionist turn in trade and production was coupled with aggressive initiatives in industrial relations and social welfare. The Arbitration Court, which was reorganized by the Labour government, actively encouraged unionization across a wide range of industries. The most important redistributive legislation during the period was the Social Security Act of 1938, which covered most of the basic social welfare areas. A final innovative aspect of the Labour government concerned the financial sphere. On the one hand, late in the 1930s, the government launched a construction program involving public housing works and financial assistance to private builders. On the other hand, in 1936, it reorganized the Reserve Bank of New Zealand as a state-owned institution with increased powers. This change in the status of the Bank was not just a matter of "public prestige". After the Bank assumed the full responsibility for financing the state-operated foreign marketing of the dairy products, the influence of the commercial banks in the financial affairs of the country diminished significantly.

Of the three, New Zealand was the most innovative Dominion during the 1930s. The experiment of the Labour Party defined the limits not only of a peripheral economy but also of a British-style financial system. In its innovative approach to economic and social policy, the New Zealand Party differed from its British (UK and

Australian) counterparts as it came closer to the Social Democratic/Labour parties in Scandinavia. This innovative touch New Zealand brought to Dominion protectionism provides us with a linkage to Scandinavian protofordism.

SCANDINAVIAN PROTOFORDISM

Whereas the Dominions were relatively isolated from the strains of the interstate relations, the Scandinavian countries found themselves exactly in the midst of those strains. This was because of the proximity of Scandinavia to a "revisionist" Germany which, from the early 1930s on, began to dispute the post-First World War order. Throughout the 1930s, Denmark, Norway, and Sweden increasingly felt the impact of the struggle between the forces of revisionism led by Germany and those of conservatism led by the United Kingdom. The impact of this struggle on the region culminated in the German occupation in April 1940 of Denmark and Norway. With its two western neighbours under German occupation, Sweden was severely constrained from continuing its policy of neutrality between the warring parties.

In reacting to the social and economic difficulties of the 1930s, the three Scandinavian countries tried to escape the dilemma of choosing between UK protectionism and German neomercantilism. In their search for a way out of the dilemma, they were consequently compelled to innovate, both politically and economically. The specific form of their political innovation was the crisis agreements

struck by the Social Democratic/Labour and Agrarian parties.[60] The economic innovation they came up with was protofordism. Like the US and French cases, Scandinavian protofordism was not so much about economic policy per se as about drawing a new political framework for economic policy. Even back in the 1930s, however, the Scandinavian countries, Sweden in particular, outpaced all other countries in the Western world in terms of the fusion of the economic and social policies, as well as that of politics and policy.

As in the case of the Dominions, departure from the gold standard and currency devaluation formed part of Scandinavian trade policies.[61] Unlike the industrial tariff protectionism of the Dominions, the main form of protection in Scandinavia were the extra-tariff restrictions primarily on agricultural products, with the tariff policy being relatively moderate and selective. The intervention of the Scandinavian states in the sphere of production varied across agricultural and industrial sectors. While agriculture was taken under strict government control through a detailed scheme of production and marketing, industry was not the subject of any direct, comprehensive government

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[60] The perception of Germany's fascist threat formed a major stimulant of the "red-green" crisis agreements. Arne Ruth's comment on this is worth noting (1984, pp. 85-6): "[t]he moral motive of combating fascism was an important feature of the alliances between workers and farmers that had been established in the three Scandinavian countries from 1933 on; in Denmark, the so-called Kanslergade agreement[...] was concluded on January 30th, the day of Hitler's ascendancy to power. In Sweden, where a similar accord was struck a few months later, the antifascist objective was even stronger." The internal "fascist threat" played an equally important role in prompting these "red-green" agreements (Lindstrom 1985, esp. ch. 7).

[61] For a general survey of the Scandinavian economic policies during the 1930s, see Hildebrand (1975).

intervention. Despite this, it was in the industrial sector where major policy innovation took place. The Norwegian and Swedish basic agreements, concluded between umbrella business and labour organizations with no government participation or legal enforcement, established the parameters of a specific form of political, if not state, regulation especially in industrial relations. In Denmark, business and labour federations did not need to strike such a deal during the 1930s, because they had already done so in 1899.[62]

At the macroeconomic level, however, there were significant differences between Sweden, on the one hand, and Denmark and Norway, on the other. It is true that all three countries relied more on monetary policy than on fiscal policy to counter the depression. Nevertheless, Sweden also used the central government budgets for countercyclical purposes. The Swedish experiment with demand stimulus from 1931-2 to 1934-5 remained the only example of its kind in the region throughout the 1930s.

Sweden

In Sweden, every major political party had an opportunity to govern during the period. Except for a caretaker Agrarian government in the summer of 1936, the country tried three different minority governments: Conservative (1928-1930), Liberal (1930-2), and Social Democratic (1932-6). The Social Democratic-Agrarian coalition

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[62] For a general description of the Scandinavian basic agreements, see Einhorn & Logue (1989, ch. 10); Lindstrom (1985, pp. 101-4).

of 1936-9 was the only majority government of the period. While governments followed one another, their foreign trade policies continued to pursue freer trade in industry and protection in agriculture.

Foreign Trade and Finance

From 1924 to 1931, Sweden had a strong commitment to the gold standard. Whereas in April 1924 Sweden took the lead in Europe to return to the gold standard at prewar parity, in September 1931 it followed the UK lead to abandon the gold standard with a week's lag.[63] Subsequent to the departure from gold, Sweden devalued its currency, the krona, at a substantial rate and established a paper standard. To support the foreign exchange position of the Riksbank (central bank) in this transitional stage, the Liberal government took additional measures such as a mild credit discrimination against the import sector and some restrictions on foreign exchange. Viewed from the foreign trade perspective, devaluation helped Swedish exports maintain the crucial UK market and win a major advantage in the newly tapped US market.[64] Finally, in June 1933, Sweden stabilized the krona by pegging it to the pound sterling at a fixed rate, i.e. by adopting the sterling-exchange standard which would define the foreign exchange position of the krona in the rest of the 1930s.

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[63] Again, economists view the Swedish departure from gold more as an enforcement of the conditions on the country's central bank, Riksbank, than as a deliberate policy measure (e.g., Jonung 1979a, pp. 467-70; Kjellstrom 1934, ch. 5).

[64] Lundberg (1953/1957, p. 13); Moller (1938, pp. 64-5).

Tariffs did not play a significant role in Swedish foreign trade policy. Although there were some increases in industrial and, more so, agricultural tariffs, the main form protectionism took on in Sweden was extra-tariff import restrictions which first and foremost targeted the agricultural sector.[65] Beginning early in the crisis period, the state established its authority over the foreign connection of a number of locally important agricultural products in order to isolate them from the effects of international price movements. Measures taken by the Liberal government between 1930 and 1932 included general export subsidies, import monopolies notably in grains and sugar, and the compulsory use of domestic grains in milling.[66]

We should, however, point out that Swedish foreign trade policies put more emphasis on maintaining and diversifying foreign markets than on protecting the domestic market through tariffs or other means. Such a strategy of export promotion required pragmatism in order to succeed in an increasingly divided world. Therefore, Sweden sought, throughout the 1930s, to thread a delicate balance between its two main trading partners, namely the United Kingdom and Germany.

In the Oslo convention of 1930, Sweden joined the other Scandinavian and Low countries to create a freer trade area.[67] They agreed not to increase existing import

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[65] From a free trade point of view, as Erik Lundberg (1953/1957, p. 107) puts it, the Swedish foreign trade policy made no "mistakes" other than agricultural protectionism in the form of extratariff import regulations. For similar comments, see also Cole (1938); Sallius (1961, p. 65).

[66] For a detailed account of the protective mechanisms in Swedish agriculture during the period, see Braatoy (1939, pp. 68-71); Lundberg (1953/1957, pp. 14-5); especially Ovesen (1958).

[67] Cole (1938, pp. 236-7).

duties and not to impose new ones without consulting each other. Yet this area would remain far from being a satisfactory trading unit given the fact that the economies of Scandinavia and the Low countries were, to a great extent, similar in terms of the composition of their imports and exports. Consequently, it was crucial for all these economies to maintain their existing outside markets. In the case of Sweden and Scandinavia in general, maintaining the UK market became extremely difficult after the United Kingdom granted the Dominions preferential treatment in the Ottawa agreements of 1932. Nevertheless, the Scandinavian countries were not totally excluded from the UK market. They continued to have access to it, although under less favourable conditions, through the trade agreements separately negotiated in 1933.[68]

The Swedish attempt at market diversification produced its most concrete results in the case of the United States. Sweden made important gains in the US market with processed forestry products especially after the Cordell Hull trade program of 1934 put the United States in a free trade direction. A corollary of this was the Swedish-US trade agreement struck in May 1935.[69] In its search for alternative markets, Sweden also tried bilateral clearing trade with some small countries of Southern and Eastern Europe.

Swedish-German trade relations constituted the prime example of the pragmatism Sweden manifested during the 1930s. Under the "National coalition"

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[68] For a detailed account of the British-Scandinavian trade diplomacy during the 1930s, see Rooth (1986; 1988).

[69] On the Swedish-US trade agreement, see Sallius (1961).

(meaning an all-party government led by the Social Democrats) during the Second World War, this pragmatism was transformed into a necessary politics of survival. After occupying Denmark and Norway in 1940, Germany applied to Sweden a dose of overt or covert coercion required by the "greater space doctrine" (Grossraum-wirtschaft). What was at stake in particular was Swedish iron ore and ball-bearings that were vital for Germany's rearmament program and, eventually, implementation of the war.[70] Even before the war, Sweden was Germany's largest foreign supplier of these two items. For example, during the period 1933-9, Sweden supplied about 30% of German iron ore consumption (not imports), which in turn accounted for about 73% of Swedish iron ore exports.[71] In the case of ball-bearings, a private Swedish firm, SKF, controlled more than half of Germany's domestic production through its subsidiary in that country.[72]

Production and Employment

One feature of the Swedish (to some extent, Danish and Norwegian) economic policies in the 1930s was that, in contrast to similar experiments at the time in the United States and France, they formed the concrete institutional parameters of postwar

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[70] On the role of Swedish iron ore and ball-bearings in the German war economy, see Fritz (1982); Karlbom (1965); Milward (1977, pp. 300-1, 308-12, 323-5).

[71] Calculated from Karlbom (1965, p. 79/tab. 4b for Germany's share in Swedish iron ore exports, p. 87/tab. 8b for Sweden's share in German iron ore consumption).

[72] Fritz (1982, p. 27).

policy-making. This was especially the case with production and employment policies While in foreign trade, for instance, the depression-postwar continuity was based on principles such as industrial free trade and agricultural protectionism, in production and employment, the continuity was in terms of principles and institutions. With regard to principles, we can mention the general subsidization of agriculture, the private control of industry, and the priority given to programs for job (re-)placement over those for unemployment support. Among the institutions to be firmly entrenched in the postwar period were the basic agreement between labour and capital, and a public agency for labour market relations.

Agriculture was again the leading sector in which all Swedish governments proved to be invariably interventionist. When in 1933 the governing Social Democrats concluded a crisis agreement with the Agrarians, many agricultural products had already been under a system of direct subsidies, floor prices, cultivation-area controls, and monopoly marketing. In order to protect the home market, the previous governments had strictly regulated agricultural production in every major stage from price formation to distribution through the State Agricultural Board and the public and private monopoly bodies created for specific products.[73] In addition to these regulatory measures, a number of product-specific cooperatives affiliated with the General Agricultural Society played very important roles in the marketing of the

[73] Braatoy (1939, pp. 71-8); Dahmen (1950/1970, pp. 38-43); Lundberg (1953/1957, pp. 51-2); Ovesen (1958, pp. 43-9).

country's principal agricultural products.[74]

What, then, did the crisis agreement change in Swedish agricultural policy? While building on trends already underway in agriculture, the agreement signified a change in the attitude of labour towards farmers and **vice versa**.[75] After forming a minority government in September 1932, the Social Democrats as the major political representative of the working class approached the Agrarians for parliamentary support for a new social and fiscal program. The ensuing negotiations between the two parties concluded in May 1933 with the famous crisis agreement, also known as the "cow deal". With this agreement, the Social Democrats abandoned their traditional position of free trade and low prices in agricultural products in return for, as we will see shortly, Agrarian support for their social and fiscal initiatives. For the Social Democratic leadership, the abandonment of the cheap-foodstuffs cause was also justifiable in another respect, namely the expansionary impact that the increasing purchasing power of the farmers would have on the general economy.[76]

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[74] On the role of the cooperatives in agricultural marketing during the 1930s in general, see Ytterborn (1938).

[75] Notwithstanding those who hailed the crisis agreement as the salvation of family farming (see, e.g., Olsson 1968, pp. 91-7), the agreement did not lead to a change of general direction in Swedish agricultural policy. As the term "red-green" alliance suggests, the change this agreement caused and/or represented was rather in terms of the two producing classes' political understanding of each other. The Swedish case formed part of the general Scandinavian campaign for a political **rapprochement** between workers and farmers, which had begun with the establishment in 1932 of an informal Nordic Social Democratic Cooperative Committee on worker-farmer relations (Soderpalm 1975).

[76] For example, Gustav Moller and Ernst Wigforss, two prominent members of cabinet during the SAP's extended period of governance beginning in 1932,

(continued...)

In the period following the crisis agreement, the Agrarian-backed minority Social Democratic government made some adjustments in the general protection of agriculture which were in many cases necessitated by the consequences of the earlier measures. On the one hand, in order to check the overproduction of some crops, wheat in particular, the government lifted the support purchases and imposed restrictions on cultivation area for those crops from 1934 on.[77] On the other hand, it established new support programs and monopoly marketing bodies in areas such as dairy farming.

In contrast to agriculture, industry did not see any major microeconomic intervention on the part of the state. In this respect Sweden was quite similar to Canada. With nationalization dropping from the political agenda, state ownership in the economy remained limited primarily to public utilities during the 1930s.[78] Cartellization occurred only on a private basis.[79] The state not only refrained from developing any scheme of cartellization but also tried to check private initiatives in

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[76](...continued)
highlighted this fiscal aspect of the agricultural provisions of the crisis agreement. While Moller (1938, pp. 66-8), Minister of Social Affairs, mentioned the general fiscal stimulus that would result from the increasing purchasing power of the farmers, Wigforss (1939), Minister of Finance, pointed out also a redistributive dimension involved, i.e. the transfer of income from the consumers to producers of foodstuffs.

[77] Ovesen (1958, p. 50).

[78] Apart from a number of public utility companies, the state also owned 50% of the country's largest iron-ore mining company, LKAB, and the tobacco and liquor monopoly (Clarke 1938, pp. 134-43; Childs [1936] 1947, chs. 5-7). An investigatory commission on socialization, set up in 1920 by the first (minority) Social Democratic government, issued several reports in the course of the 1930s. But the emphasis of those reports was increasingly on labour market policy.

[79] Lundberg (1953/1957, p. 16).

that direction as the Mammoth Inquiry of 1935 made evident. In the meantime, the independent Cooperative Union, KF, proved to be an effective tool of "trust-busting". It caused the breakup of a number of cartels in the consumer-goods industries either by engaging in direct production and/or trade, or by threatening to do so.[80] That the state did not assume a direct role in armaments production even during the war period constitutes a telling example of the private character of the Swedish industrial structure. While the state encouraged the armaments industry administratively and financially, it was a few private firms that controlled the industry in terms of ownership and production.[81]

Although the Swedish state did not resort to industrial policy in its narrower, microeconomic sense, it did intervene in industrial life by developing an active labour market policy and by creating a new institutional framework for labour-capital relations. As for unemployment, all Swedish governments during the 1930s preferred the option of establishing relief and/or public works programs to that of providing the "dole" (direct relief). This preference was independent of the political party in power and in fact continued a trend that emerged after the First World War. For the 1930s, the institutional legacy of the 1920s was the Unemployment Commission, AK, first

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[80] The "trust-busting" activities of the Cooperative Union were not confined to Sweden. The Nordic cooperative union, with which the Swedish union was affiliated, had established a light bulb factory to break up the monopoly position of certain private firms in the production of light bulbs (Clarke 1938, pp. 131-4; Childs [1936] 1947, chs. 2, 3).

[81] Ulf Olsson (1982) gives a detailed account of the state encouragement of the private armaments firms during the war period.

established on an **ad hoc** basis in 1914 and later transformed into a permanent body in 1924. Until 1940 when it was dissolved, the AK continued as an independent agency, though under the Ministry of Social Affairs, responsible for all unemployment relief programs except for those public works established by the Social Democrats from 1933 on.

During the 1930s, the AK centrally organized a complex system of direct and indirect unemployment relief in coordination with local, municipal administrations.[82] With regard to direct relief which played only a secondary role in the overall relief system, the AK, representing the central government, shared the cost with the municipalities. As for relief works (in the Swedish context, emergency works or, as they were later called, reserve works), there were three different categories: the (central) state, the state-municipal, and the municipal. In the case of the state emergency/reserve works, the major part of relief works, the entire responsibility lay directly with the AK. The state-municipal works were financially subsidized by the AK but administered by the municipalities. Finally, the municipal works were financed and administered solely by the municipalities. The AK fixed the wages in state works (and, by implication, state-municipal and municipal works) well below the open market level. It was this wage-fixing practice that formed, from the 1920s on, the focal point of the Social Democratic critique of the AK.

When the Social Democrats came to power in September 1932, one major item

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[82] On Swedish unemployment relief system in the 1930s, see Clark (1941, esp. chs. 5, 6); Moller (1938); Wilson (1938b, pp. 78-89).

of their agenda was to abolish the AK altogether. In May 1933, however, they accepted the continuation of the AK as part of their crisis agreement with the Agrarians.[83] Although the AK continued to function thanks to this compromise, both its organizational structure and the relief works it oversaw were subject to significant changes. In organizational terms, the labour membership in the AK was restored. Among the newly established practices in respect to state relief works was the fixing of wages at the lowest rate an unskilled worker received in the (local) open market.[84] Changes of the other parts of AK-organized/coordinated unemployment relief system included an increase in the central government's contribution to state-municipal relief works, the reduction in municipal relief works and direct relief, and the launching of a special relief works project for the young unemployed.

The Social Democratic-Agrarian "cow deal" was not just about revising the AK and the system it oversaw, however. Having exacted a major fiscal concession from the Agrarians, the Social Democrats were able to experiment with a new public works program from 1933 on. As the preserve of the skilled labour force, the new public works were set up entirely according to the terms of regular industrial activity, including collective bargaining rights, and was administered directly by the Ministry

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[83] Lindstrom (1985, p. 157).

[84] The other changes effected in respect to state relief works were the lifting of the immediate utility requirement, the confinement of the labour force used to the unskilled, the increase in the capital component relative to the wage component, the extension to the areas previously conceived of as the prerogative of the open market, and the banning of the employment of the relief-works labour force in those workplaces where a legal strike was in effect.

of Social Affairs, not the AK. Thus, a dual system of unemployment relief took effect beginning in 1933: the relief works and direct relief in AK tradition, on the one hand, and the public works initiated by the Social Democrats, on the other. However, the public works component of this new system would progressively grow larger at the expense of relief works and direct relief. For example, in 1938 there were almost three workers employed in public works for every worker engaged in AK-affiliated relief (emergency/reserve) works. In 1933 there had been ten workers in AK relief works programs for every worker in public works.[85]

In addition to unemployment relief as a crisis-specific phenomenon, the Social Democrats also took some steps to regulate the labour market. In 1934, they began to institute a general system of public labour exchanges under the central administration of the Social Board, an agency affiliated with the Ministry of Social Affairs.[86] For this purpose, the Social Board established an extensive network of public employment offices, reorganized all existing labour exchange programs, and created new ones, with the cost of the whole project being increasingly met by the central government. With the establishment in 1939 of the Labour Market Board, AMS, composed of business, labour, and government representatives, the Social Board transferred to that agency all

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[85] Calculated from Jorberg & Kranz (1989, p. 1082/tab. 149). The data presented in the same table also show that, during the period 1933-8, the proportion of those who received direct relief (cash assistance) through the AK to those who worked in any one of the public works and AK-affiliated relief works declined from a high of 123% in 1933 to a low of 20% in 1935.

[86] For Social Democratic labour market policies in the period 1934-40, see Clark (1941, chs. 7, 12); Skogh (1938).

its functions with respect to the labour market policy. After the AK was finally abolished in May 1940, the AMS became the sole labour market agency responsible for all programs of relief/public works and labour exchanges.[87]

Another indication of the "inherent bias" in Swedish public policies towards the jobs option was the kind of unemployment insurance introduced during this period. Despite the fact that unemployment insurance was not included in the crisis agreement because of Agrarian objections, the minority Social Democratic government moved on the issue with the support of the Liberals. The Unemployment Insurance Act of May 1934, a product of this Social Democratic-Liberal collaboration, established a voluntary insurance scheme along the lines of the "Ghent-system".[88] The unions were at the centre of the scheme since they were to set up and administer their own unemployment insurance funds.[89] The only role of the state in implementation was to subsidize the

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[87] In 1940, the central government assumed the full cost of the labour exchange programs. In 1939, about 14% of the Swedish labour force was involved in these public programs excluding relief/public works (Clark 1941, ch. 7).

[88] We should note that the expert advice, too, was in the direction of a voluntary insurance scheme. For example, the reports in 1931-5 of the Unemployment Investigation Commission, which was set up in 1927 to advise the AK, recommended against establishing a compulsory state insurance scheme. Although the Unemployment Insurance Act of May 1934 was amended later in 1936 and 1937, its basic tenets remained intact. For the unemployment insurance legislation (and other social policy developments in the 1930s, such as minimum wages for agricultural workers, holidays with pay, maternity and child care, and amendments in the Old Age Pension Act of 1913, the Poor Relief Act of 1918, and the Health Act of 1919), see Braatoy (1939, ch. 2); Clark (1941, ch. 8); Heclo (1974, pp. 211-26); Jorberg & Kranz (1989, pp. 1095-100); Rothstein (1990).

[89] In this context, Bo Rothstein argues that the establishment of a Ghent-type unemployment insurance, which strengthens the power of the unions, was one of the two major institutional achievements of the Social Democratic governments in the

(continued...)

union-based funds while employers had no responsibility whatsoever. Most of the unions would naturally remain reluctant to establish such funds as long as they were voluntary and highly contributory. For example, during the period 1935-9, the membership of those unions which had a state-subsidized insurance fund were only one-fifth of the general union membership.[90]

Finally, we should look at the industrial relations system Sweden instituted in the 1930s. Much of the initiative in this matter was taken by the "civil" parties, namely business and labour organizations, with the state playing the role of the legal enforcer when and if necessary. The Right of Association Act of 1936 and the Saltsjobaden agreement of 1938 had a lasting impact on industrial relations, and in the case of the Saltsjobaden, on general economic regulation as well. The 1936 Act extended the rights of unionization and collective bargaining to all public and private salaried employees with the exception of top civil servants in central and local governments.[91] The Labour Court, established in 1928, was responsible for enforcing the legislation, though in practice it was left with few problems of enforcement after the private negotiations of the parties concerned.

The Saltsjobaden agreement, or the basic agreement as it was formally called, formed a more important development both functionally and historically. The Swedish

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[89](...continued)
1930s, with the other being the replacement of the AK by the AMS (1990, pp. 333-5). Thus, Rothstein says, it was institutional change, rather than economic policy, that mattered in the 1930s.

[90] Heclo (1974, p. 128).

[91] On the 1936 Act, see Johnston (1962, ch. 5).

Employers' Federation, SAF, and the Trade Union Confederation, LO, concluded the Saltsjobaden agreement in December 1938, two and a half years after they began to negotiate.[92] The government had not been involved directly either in the agreement or in the process leading to it. In the Saltsjobaden, the SAF and the LO established a basic framework of collective bargaining for the individual federations belonging to the two confederations, and specified the conditions under which strikes, lockouts and other industrial actions would take place. The two parties also decided to set up a permanent body of arbitration and conciliation --a private labour market board, not to be confused with the AMS.[93]

The Monetary and Fiscal Framework

The activism of Swedish response to the problems of agrarian distress, industrial downturn, and unemployment must be located in its macroeconomic context. What defined Swedish macroeconomic policy during the 1930s was a countercyclical rationale. In the first half of the decade, i.e. during the depression, there was

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[92] In May 1936, SAF and LO set up an **ad hoc**, joint labour market committee to draw a basic framework for conducting the business-labour relationships in industry. The committee formed the organizational medium of negotiating and concluding the basic agreement (for the preparatory work of this committee, see Hansson 1939, pp. 106-13). The more famous name Saltsjobaden is after a resort place near Stockholm, where the negotiations were concluded.

[93] For the text of the "Basic Agreement Between the Federation of Swedish Employers and the Confederation of Swedish Trade-Unions [December 20, 1938, Stockholm]", see Hansson (1939, pp. 85-105).

expansionary financing. Following the economic upturn in the mid-1930s, the Riksbank and the Ministry of Finance reversed the policies of easy money and deficit spending, respectively.

Swedish monetary policy did not take a reflationary turn immediately after the abandonment of the gold standard and the devaluation of the krona in September 1931.[94] As a matter of fact, the fear of inflation guided monetary policy for the rest of the year. The Riksbank raised interest rates and, in coordination with the Ministry of Finance, sought to maintain the domestic purchasing power of the krona by launching a price stabilization program. The construction of a weekly consumer price index formed the core of this program.[95] Beginning in 1932, however, a moderate reflationary policy took effect. The Riksbank responded positively to newly emerging fiscal activism by easing the credit conditions through gradual reductions in interest rates. While retaining the "norm" of stabilization in consumer prices, the Bank shifted its focus towards boosting the wholesale prices. Consequently, between 1932 and 1935, wholesale prices increased at a moderate rate whereas the consumer price index remained almost the same.[96]

Fiscally, Sweden occupied a unique place among those countries which had

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[94] On Swedish monetary policy, see Gaitskell (1938, esp. pp. 99-104); Jonung (1979a; 1981); Kjellstrom (1934, chs. 5-7); Montgomery (1938); Thomas (1936, ch. 6).

[95] According to Lars Jonung (1979a, p. 459; see also 1981, p. 299), the Riksbank was the "first central bank on record to openly set price stabilization as the goal of monetary policy".

[96] Thomas (1936, p. 241/tab. 2).

experimented with demand stimulus. What distinguished the Swedish experiment from all other cases was the strictly countercyclical purpose it served, not the size of budget deficits it required.[97] To be more specific, the combined practices of the various Swedish governments during the 1930s amounted to the first successful application of the principle of balancing the state budget over a "business cycle" rather than for each fiscal year. Thus, the aggregate deficits of the fiscal years from 1931-2 to 1934-5 were compensated for by the aggregate surpluses of the fiscal years from 1935-6 to 1938-9.[98]

In dealing with Swedish fiscal policy in the 1930s, we should not give the whole credit to the Social Democrats.[99] It was the (Prohibitionist) Liberals, not the Social Democrats, that first experimented with deficit spending as a way of coping with the economic crisis. Between 1930 and 1932, the minority (Prohibitionist) Liberal government established all major mechanisms of expansionary financing that would be utilized by the Social Democrats from 1933 on.[100] In this sense, Liberal and Social Democratic fiscal policies shared more with each other than they differed from

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[97] During the 1930s, Swedish deficit spending was modest in comparison with other cases. Moreover, as Lennart Jorberg and Olle Kranz (1989, p. 1094) observed, Swedish budget deficits were bigger during the crisis of the 1920s than during that of the 1930s. On this last point, see also Hildebrand (1975, p. 108); Rothstein (1990, p. 333).

[98] For Swedish budgets of the 1930s, see Wigforss (1939, p. 25).

[99] Gustav Moller (1938) and Ernst Wigforss (1939) take Sweden's fiscal experiment in the 1930s as an exclusively Social Democratic initiative. For similar views, see Arndt (1944, ch. 8); Childs (1980, pp. 18-9); Wilson (1938a, pp. 74-6).

[100] Lindbeck (1974, p. 23).

each other.

What, then, was innovative about the fiscal policy after the "cow deal" of May 1933? First, the minority Social Democratic government put more emphasis on the demand-stimulus effect of both the ordinary and loan-financed public expenditures.[101] Secondly, and as a result of the first, it increased the amount of spending on, and made improvements in, preexisting programs such as direct unemployment aid, relief works, subsidies and credits (to selected private businesses and to agriculture as a whole), and state businesses and social services. The third and distinctive aspect of the Social Democratic experiment in expansionary financing was the introduction of the open market-based public works programs, and the targeting of the housing and related sectors as the key to economic revival.[102]

After the economy began to recover in 1935, the Social Democrats reversed the policy of deficit spending by gradually reducing the size of all those programs established since the onset of the depression.[103] Taking an overall view of the period, we can point out that the Swedish budgetary pattern was distinguished not by the

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[101] An important indication of the Social Democrats' increased emphasis on the connection between the state budget and the general economy was the changing status of the social policy expenditures. In the new period, social spending, which was traditionally conceived of as a burden on the economy, became part and parcel of the economic recovery program (Jorberg & Kranz 1989, p. 1096).

[102] On Social Democratic spending pattern, see Braatoy (1939, esp. pp. 21-4); Clark (1941, chs. 9-11); Moller (1938, pp. 68-9); Wilson (1938b, p. 88).

[103] Nevertheless, the Social Democrats did not cease to deal with the subject of economic crisis in general. To fight any future crises more effectively, they took a number of measures between 1936 and 1938, such as the establishment of the Business Cycle Institute and of the Public Works Planning Committee, and the preparation of an emergency budget to be used when needed.

amount of spending but by the way in which that spending was organized. General (central and local) government expenditures, for example, increased very modestly in proportion to the domestic product over the 1930s. In 1930, these expenditures corresponded to 14% of the net domestic product; and in 1938, to 18%. Significantly enough, the highest percentage (19) during the period 1930-8 was reached in 1932, i.e. before the Social Democrats introduced their first budget.[104]

Examined from a revenue perspective, the Swedish budgets did not make use of any single source disproportionately. The main sources of financing the central government expenditures were taxation, profits of the state businesses, and borrowing in the expansionary phase of the cycle.[105] Unlike indirect taxes, direct taxes were not increased until after 1938 when the Social Democratic-Agrarian coalition government made changes in the tax system. In addition to increasing the direct taxes moderately, the "tax reform" of 1938 established the principle of proportionate, not progressive, taxation and introduced a number of incentives for large corporations.[106] The new system exempted from taxation those corporate profits which would be reserved for future investments.

In its response to the Great Depression, Sweden drew on a combination of

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[104] For general government expenditures in Sweden, see Flora et al. (1983, p. 426). Naturally, the proportion of these expenditures to the gross domestic product was slightly smaller.

[105] Moller (1938, pp. 63-4); Wilson (1938a, p. 71/tab. 3).

[106] On the bias of the new tax system towards big businesses, see Gustafsson (1986); especially Steinmo (1988, pp. 416-22).

policies involving trade, production, employment, and money and finance. By doing so, it was innovative in every major area except for foreign trade. The tradition of agricultural protection and industrial free trade inherited from the 1920s was maintained in the 1930s. Nevertheless, combined with the innovation in other areas, the continuation of free trade in industry (and, of course, in the extractive sector) produced the most advanced form of protofordism in the world. Compared with the Swedish case, the Norwegian and especially Danish protofordist experiences were not only politically weak but also tempered with protectionism and fiscal conservatism in economic terms.

Denmark and Norway

Politically, all three Scandinavian countries followed parallel trajectories in the 1930s. Like Sweden, Denmark and Norway saw the installation of a Social Democratic/Labour governance based on the cooperation of the Agrarians. In Denmark, the Social Democrats shared power with the Radical Liberals in a minority coalition from 1929 to 1933. In January 1933, they strengthened this coalition by gaining the outside support of the Agrarian Liberals through the Kanslergade compromise, the Danish counterpart of Sweden's crisis agreement.[107] For the Norwegian Labour Party, the road to power was long and difficult by Scandinavian standards. In the first half of the

[107] For a comparative description of the Danish, Norwegian, and Swedish crisis agreements, see Lindstrom (1985, pp. 156-9); Soderpalm (1975, pp. 274-5).

1930s, Norway tried three minority governments which were all filled by the "bourgeois" parties (the Liberals in 1928-31 and 1933-5, and the Agrarians in 1931-3). The turning point in Norwegian politics came in March 1935, when a crisis agreement was struck by the newly-formed minority Labour government and the Agrarians and a main agreement, by the business and labour confederations.

Traditionally free-trading Denmark adopted a protective foreign trade policy in the early 1930s.[108] After abandoning the gold standard and devaluing the krone in late September 1931, the country eventually joined the "sterling bloc" by pegging the krone to the pound sterling. The establishment of the Exchange Control Authority in 1932 signified the patterning of Danish foreign trade along a quantitative, non-tariff line of protection. In addition to administering the exchange control system, this body imposed strict controls over imports through licensing without raising tariff levels. These restrictive measures involved both manufacturing industries and the agricultural sector which had been a free-trade stronghold prior to the Great Depression.

Agriculture became an increasingly state-regulated sector in domestic terms as well. Between 1931 and 1933, the Social Democratic-led minority coalition set up an extensive network of marketing schemes involving debt relief, subsidies, production controls, and price-fixing.[109] The Kanslergade compromise accelerated this process.

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[108] On Danish foreign trade policy, see Johansen (1987, pp. 53-9); Kristensen (1958); Royal Institute of International Affairs (1951, pp. 54-60).

[109] Johansen (1987, pp. 47-53).

In the meantime, domestic manufacturing industries were encouraged through both import restrictions and monopoly price regulations.[110] In terms of unemployment policy, Denmark resembled Canada rather than Sweden. Although some relief works programs were initiated after the Kanslergade compromise, direct relief was maintained as the main form of unemployment relief. During the 1930s, Denmark did not innovate either in unemployment insurance legislation or in industrial-relations regulation since it was historically an early-comer in both fields. On the one hand, the country had established a voluntary, union-based unemployment insurance system back in 1907.[111] On the other hand, since 1899, Danish business and labour confederations had been working within a collective bargaining framework similar to the Norwegian and Swedish main agreements struck in 1935 and 1938, respectively.

In monetary terms, Denmark adopted the same policies as Sweden.[112] The country's central bank raised interest rates following departure from the gold standard and currency devaluation. However, the central bank pursued a cheap money policy from 1932 to 1935 when it began to raise interest rates again. Fiscally, Denmark was a successful follower of balanced-budget orthodoxy. In fact, thanks to lower spending and higher taxation, the central government concluded all of its budgets with surpluses throughout the 1930s. Nevertheless, we should also note that, when compared with

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[110] According to Hans C. Johansen (1987, p. 57), the 1930s saw the "second wave of Danish industrialization".

[111] The Danish unemployment insurance system introduced in 1907 was based on voluntary union funds subsidized by the central and local governments. In 1908, these funds covered 75,000 unionized workers (Kuhnle 1978, p. 25/tab. 5).

[112] On Danish financial policy, see Johansen (1987, pp. 63-9).

Sweden, the general (central and local) government expenditures in Denmark not only stood at a higher level but also increased more steeply over the period.[113]

With regard to economic policy in its strict sense, Norway shared more with Denmark than with Sweden. However, while lacking the kind of economic experimentation that Sweden had, Norway did not lag behind Sweden in political and social innovation.

Like Sweden and Denmark, Norway joined the "sterling bloc" about two years after it abandoned the gold standard and devalued its national currency in late September 1931. In foreign trade, the Norwegian governments, regardless of their political party composition, were protective of both industry and especially agriculture.[114] The two common practices regarding agricultural staples were restrictions on imports and the exportation of domestic surpluses through price dumping. In industry, by contrast, tariffs were used as the main protective mechanism. Domestically, the state encouraged, or even introduced in many cases, cartellization schemes in primary and secondary industries. To save the traditional the family farm, for example, specialized cooperatives were given a monopoly position in pricing and marketing under the authority of the central marketing board.

As in the case of Denmark, Norwegian unemployment policy was based on

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[113] In Denmark, the general government expenditures increased from 15% in 1930 to 22% in 1939 of the net domestic product (Flora **et al.** 1983, p. 362).

[114] Hodne (1983, ch. 6).

direct relief rather than on works programs. While the Liberals in 1933, and the Labour Party after the crisis agreement of 1935, launched some public works programs, the "dole" remained the main source of relief for the unemployed 1938. The unemployment insurance legislation of 1938 established a contributory and compulsory scheme covering the industrial labour force.[115]

During the 1930s, Norway, like Sweden, made a major breakthrough in industrial relations. The main agreement of March 1935 between the business and labour confederations, the NAF and the LO, respectively, was a code of behaviour for collective bargaining with no legal enforcement.[116] In the agreement, the LO accepted the legitimacy of the NAF in organizing work whereas the NAF accepted the legitimacy of the LO in organizing the workers.

In terms of monetary policy, there was a full convergence among the three Scandinavian countries. The Norwegian central bank completed a cycle of increase-reduction-increase in interest rates between September 1931 (departing from gold and currency devaluation) and the mid-1930s. Fiscally, Norway, like Denmark, acted in an

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[115] The cost of financing the unemployment insurance was shared equally by the state, employers, and workers. As a matter of fact, Norway had its first unemployment insurance scheme back in 1906, when voluntary union funds were established with public contributions. But this first scheme had covered an extremely small number of workers (Kuhnle 1978, p. 25/tab. 5). On the other hand, the introduction of old age pensions in 1936 formed one of the most important social policy developments in Norway during the period.

[116] In contrast to its Swedish counterpart, the Norwegian main agreement was concluded for a specific period of time, namely five years (Hodne 1983, pp. 96-7).

orthodox fashion.[117] While transferring some money from ordinary to crisis-specific programs in 1935-6, the Labour government did not deviate fundamentally from the lower spending-higher taxation policies of its "bourgeois" predecessors. As in the case of Denmark, every single Norwegian (central government) budget between 1930-1 and 1938-9 was concluded with a surplus.[118] Although Norway was slightly above Denmark and Sweden in terms of the overall level of the general government expenditures during the 1930s, it was well below them in terms of the increase in these expenditures over the period.[119]

Denmark and Norway, in contrast to Sweden, were fiscally conservative and turned protective in foreign trade. Like New Zealand under the Labour government, they used protective measures in industry and for industrialization. In this respect, there was only a thin line between the protectionism of New Zealand under the Labour government and the protofordism of Norway and especially Denmark. Industrialization was a major theme in the economic policies of all three countries concerned. We can compare the protective measures taken by these countries with the autarkic ones taken by the Balkan countries for the same purpose: industrialization. This time, however, the line should be drawn very thick.

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[117] On Norwegian fiscal policy in the 1930s, see Hanisch (1978); Hodne (1983, ch. 7).

[118] Hodne (1983, p. 95/tab. 7.2).

[119] In Norway, the general government expenditures increased from 19% in 1930 to 21% in 1939 of the net domestic product (Flora et al. 1983, p. 414).

BALKAN NEOMERCANTILISM

Compared with the case of Scandinavia, the situation of the Balkans in interstate relations was much more precarious. In the German "greater space doctrine", the Balkans was conceived of as the southeastern flank of Germany's "living space" in the European expanse.[120] The 1930s witnessed the transformation of this conception into a full-blown reality. Germany under the Nazis established the region as a sphere of economic and political influence. The United Kingdom's growing ties with Greece and Turkey towards the end of the period formed the only notable challenge to German domination of the region.

The principal mechanism by which Germany reshaped the agricultural economies of the five small Balkan states according to the needs of its domestic market was bilateral clearing trade. While the German clearing-trade drive in the region began during the late Weimar period, it became under the Nazis a general strategy of "colonization".[121] In line with the New Plan, Germany increased the appeal of the clearing-trade mechanism for the Balkan countries by offering their primary products a price higher than the world-market level, which it would pay in

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[120] According to this doctrine, the countries of Central and Eastern Europe (Austria, Czechoslovakia, Hungary, and Poland) formed another part of Germany's "living space" in the European expanse.

[121] On German trade drive in the Balkans (roughly Southeastern Europe) during the 1930s, see Arndt (1944, pp. 193-8); Basch (1944, chs. 10-2); Berend & Ranki (1974, ch. 11); Ellis (1941, pp. 257-70); Lampe & Jackson (1982, pp. 456-69); Ranki (1983, chs. 7-9, 11); Teichova (1989, p. 952).

kind, namely as manufactured goods. This revision formed a sufficient inducement for all countries in the region since they had difficulty in marketing their primary products and were short of foreign currency to import industrial goods.

Yet, in practice, Germany transformed the clearing-trade mechanism into one of naked "unequal exchange" in its favour.[122] On the one hand, it obtained a major advantage in primary-goods imports from the region by stipulating the gold parity of the mark and each trading partner's currency as the exchange measure of the clearing trade. This was in view of the fact that the mark had an artificially high exchange rate since Germany maintained the gold standard only formally whereas the other currencies got weaker in terms of their gold parity. On the other hand, Germany always had deficits in its clearing trade with each country of the region since it was deliberately in arrears in exporting the manufactured goods of its own choosing. In other words, the deficits in Germany's clearing accounts were an interest-free credit extended by the Balkan countries. Once these countries were drawn into the clearing-

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[122] In order for us to make sense of this "unequal exchange" between Germany and each of its trading partners in the region, we should first remember the rules by which a "fair" clearing trade was conducted. While not involving any actual currency exchange, the clearing-trade mechanism still required an agreed-upon exchange measure, such as the gold parity of the two trading partners' currencies if they were both on the gold standard. It also required the existence of a central banking mechanism (or a central trading authority) in the two countries concerned. Thus, importers paid the central bank of their own for the value of imported goods in their own currency whereas exporters received from the central bank of their own the value of exported goods in their own currency. A final requirement of the mechanism was the "clearing" of the import and export accounts in the two central banks against each other at the end of the year. In other words, the two countries were supposed to balance their trade against each other through an equalization of the import and export quotas between themselves. See League of Nations (1938, p. 16); Ranki (1983, p. 124) for more on the technical aspects of the clearing trade.

trade network, it was extremely difficult for them to divert their trade to other countries (if and when they decided to do so).

Clearing trade on such a scale requires the state to take control of the entire foreign-trade sector. This was exactly what happened in the case of the Balkans. Even before Nazi Germany elevated the bilateral clearing mechanism to an overall trade strategy, the Balkan states had the necessary infrastructure in place for responding positively to that kind of strategy. Following the first effects of the crisis, they imposed controls on foreign exchange and merchandise trade (import and export) involving licences, quotas, and prohibitions. While tariff rates rose steeply, they did not have any major role to play in a system of physical controls.

Among the five Balkan states, only Greece left the gold standard and resorted to currency devaluation during the 1930s. The others either maintained a German-style allegiance to the gold standard as in the case of Bulgaria or had no direct ties to it during the 1920s as in the cases of Romania, Turkey, and Yugoslavia. In order to ease the balance-of-payments problems, all five states partly or completely suspended payments on their foreign debt. The same balance-of-payment difficulties formed one of the strongest motives for these states to curtail imports and encourage exports, in other words, to search for self-sufficiency.

For the Balkan states, the 1930s was, above all else, a decade of import-substituting industrialization. While the region was not homogeneous in terms of state "microeconomic intervention" (i.e., in terms of cartellization, nationalization, planning, and state ownership and entrepreneurship), the common industrial strategy in the

region was the establishment of those industries that would replace consumer-goods imports. The "etatism" which Turkey developed in the 1930s constituted the most **dirigiste** industrial policy in the region by the criteria of both the rapidity of import-substituting industrialization and the level of state "microeconomic intervention". In parallel with the strategy of industrialization, the Balkan states assumed full control of foreign and domestic marketing of most primary products. Encouragement of agricultural production through import controls, floor prices, subsidies, and debt relief was in fact part of the resolve to rely on domestic resources for industrialization.

In financial terms, Balkan neomercantilism was strictly "orthodox". Maintaining the purchasing power of money (internally as well as externally) and a balanced budget were matters of national pride. Deflation and fiscal retrenchment, in turn, required reductions in the level of consumer-goods consumption and increases in the level of taxation, respectively.

Turkey

The economic and political trajectory of Turkey during the interwar period had some striking parallels to those of Italy and the Soviet Union. In the mid-1920s, the Soviet Communist and Italian Fascist parties pursued economic liberalism in the form of New Economic Policy and Liberista, respectively. Likewise, a specific form of liberalism defined the economic policies of the Republican People's Party (RPP) in Turkey in the 1920s. In all three cases, however, economic openness went hand in

hand with political closure. The RPP was, of course, a follower in modern-authoritarian ("totalitarian") institutionalization. It was a follower in neomercantilist institutionalization as well. In Turkey, the neomercantilist shift, which the Soviet Union and Italy made in the late 1920s, took place in the early 1930s.

Foreign Trade and Finance

Turkey introduced the first significant exchange controls in July 1929, i.e. before the Great Crash of October 1929. Later, in February 1930, legislation to protect the value of the Turkish lira institutionalized foreign exchange controls.[123] The decrees issued periodically on the basis of this legislation progressively expanded the scope of the exchange-control system in the course of the 1930s. The second means used to strengthen the lira, which had been a floating currency with no ties to the gold standard during the 1920s, was to establish an indirect or implicit gold parity for it by means of a major currency. Thus, the government pegged the lira first to the pound sterling in March 1930, then to the French franc in September 1931 (following the UK departure from the gold standard), and back to the pound sterling in September 1936 when France went off the gold standard. As a result of these measures, the lira became an overvalued currency against major Western currencies during the 1930s.[124]

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[123] See Hale (1981, pp. 72-4); Kuyucak (1939, pp. 17-33); Tezel ([1982] 1986, pp. 148-51) on exchange control in Turkey.

[124] For example, the exchange rate of the lira against the US dollar rose from .47 (continued...)

Regardless of the increases in their levels, tariffs did not play a major role in Turkish foreign trade policy. Building on the specific schedule of 1916, the tariff revision of June 1929 significantly increased the rates for those goods that were domestically produced or deemed to be producible. For all other goods, either the rates were kept low (as in the case of motor vehicles) or tariff exemptions were made (as in the case of agricultural implements).[125] A second tariff revision made in May 1933 introduced two tariff categories: the (lower) "agreement" rates applying to those countries which had commercial agreements with Turkey and the (higher) "general" rates applying to all other countries. To conclude, although tariffs were much higher in the 1930s than in the 1920s, they were not as effective in protecting and expanding the domestic market as physical controls over foreign trade.[126]

From the early 1930s on, Turkey had recourse to import and export controls, which would in turn prove to be convenient in conducting bilateral clearing trade. The government imposed export controls first in June 1930 and tightened them later in June 1936. But the tightest controls were imposed on imports. On the basis of the trade legislation of July 1931, the government began to issue periodic decrees listing in

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[124](...continued)
in 1930 to .78 in 1939. On this, see Hale (1981, p. 73/tab. 4.4) or Thornburg **et al.** (1949, p. 260/tab. 1).

[125] In overall terms, the tariff revision of June 1929 increased the average nominal protection rate from about 13%, which had been provided by the tariff schedule of 1916, to about 46% (Boratav 1981, pp. 170-1; Tezel [1982] 1986, pp. 138-43).

[126] Expressed in terms of the proportion of the customs duties to the value of imports, tariff rates stabilized around 14-6% during the period 1926-9. However, the rates fluctuated between 29 (1939) and 51% (1936) during the 1930s (Tezel [1982] 1986, p. 143/tab. 5.1).

detail the imports subject to quotas, authorizations, and outright prohibitions.[127] Moreover, this import-control system required quotas not only for goods but also for countries from which those goods originated. Turkey's most favoured trading partners were those with which it had a clearing agreement (or any similar dealings such as barter, compensation, and payments) and with which it registered large trade surpluses on a permanent basis. After relaxing import controls in January 1937, the government reinforced them in 1938 because of the immediate deterioration in trade balance.

In view of the strict controls on exchange, imports, and exports, Turkey was left with no option other than bilateral clearing agreements to conduct its foreign trade. During the period 1933-9, it entered a clearing trade arrangement, or a version of it, with just about every major economy, "autarkic" and "free-trader" alike.[128] The two processes underlying Turkey's foreign economic relations were thus the eclipse of monetary exchange and the shift towards bilateral, quasi-bartering trade. In the second half of the 1930s, for example, no less than four-fifths of Turkish foreign trade (imports and exports) were conducted within the framework of the bilateral clearing agreements.[129]

These institutional developments in Turkey's foreign trade sector were closely related to the German trade offensive in the Balkans. From the early 1930s on,

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[127] On import-control system in Turkey, see Hershlag (1954, pp. 339-44; [1958] 1968, pp. 115-7); Kuyucak (1939, pp. 34-43, and tab. 14); Tekeli & Ilkin (1982, pp. 221-49); Tezel ([1982] 1986, pp. 151-3).

[128] Turkey had concluded a "compensation agreement" with even a country as distant as Japan (Shimizu 1985, p. 24).

[129] Kuyucak (1939, tab. 17).

Germany began to "barter" its manufactured goods with Turkish primary goods at nominal prices favourable to Turkey. Yet, by delaying the industrial exports due, it accumulated large sums of debt in its clearing account with Turkey in the mid-1930s. Already uneasy about this "unfair" practice and, more importantly, the dependence in foreign trade on a single partner, Turkey responded positively to the United Kingdom's counteroffensive in the region when it came late in the decade.[130] The UK-Turkish economic and military credit agreements in 1938 signified Turkey's first major step in **rapprochement** with Western Europe after a decade of easterly swing. Yet Germany continued to dominate Turkey's foreign trade until the end of the Second World War.[131]

While imposing strict controls, the Turkish state did not try any large-scale program of ownership and entrepreneurship in the foreign-trade sector. The most notable exception to this was the establishment in July 1932 of a state monopoly to import tea, sugar, and coffee. In the meantime, the Office for Foreign Trade (Turkofis), established in 1934, served as a consultative agency on exports. Domestically, however, the state was the major owner and entrepreneur in the industrial sector, if not in the overall economy.

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[130] On the United Kingdom's counteroffensive regarding the German domination over Turkey's foreign economic relations, see Arndt (1944, pp. 193, 198); Ellis (1941, pp. 265-6); Kuyucak (1939, p. 51); Mance (1943); Ranki (1983, p. 180).

[131] On wartime competition between Germany and the Allies over Turkey's strategic chrome ores, see Milward (1977, pp. 314, 322).

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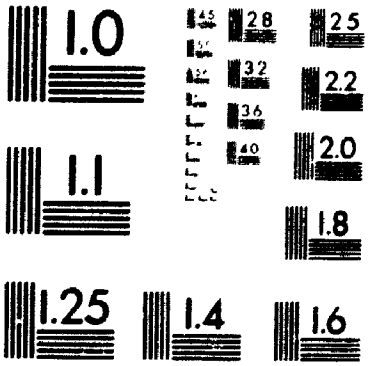

Production and "Employment"

Etatism constituted the most innovative and active aspect of the Turkish economic policies during the 1930s. If Germany had a "compelling" impact on Turkey's autarkic shift, the Soviet Union had an "appealing" one on its etatist shift.

Until mid-1932, the Republican government did not deviate radically from the path of industrial(-ization) policy taken in the 1920s, except for increased protection of the domestic market through tariffs, and foreign exchange and trade controls. Selected private industries continued to receive various kinds of assistance (such as land grants, tax breaks, and reduced freight rates) along with the 1927 legislation for the encouragement of industries.[132] In addition, the new foreign trade policies gave added impetus to these industries by enlarging the scope of the exemptions from customs duties for intermediate and investment goods they imported, and by protecting the domestic market for the (mainly consumer) goods they produced.

The etatist shift in industrial policy occurred in July 1932 when the government moved for a comprehensive economic legislation. The most prominent aspect of the July legislative initiative was the reorganization of the state's entrepreneurial and banking functions concerning industry.[133] Dissolving the old Industrial and Mining Bank, which had not played any significant role either in banking or in industry since

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[132] The number of industrial establishments receiving assistance within the framework of the 1927 legislation increased from 342 in 1927 to 1,473 in 1933 (Thornburg et al. 1949, p. 24).

[133] Boratav ([1974] 1982, pp. 190-6); Tekeli & Ilkin (1982, pp. 144-55).

its establishment in 1925, the government created two new agencies for industrial entrepreneurship and banking: the Office for State Industries and the Industrial Credit Bank, which were modelled on Soviet industrial/financial organization. An important indication of the state's changing attitude towards private businesses after July 1932 was that the Industrial Credit Bank repealed the exemptions from customs duties of the intermediate and investment goods that private businesses had imported in accordance with the 1927 legislation for the encouragement of industries.

This "radical" phase of etatism did not, however, last long, at least in organizational terms. In June 1933, the government established the Sumerbank as a state holding (entrepreneurial and banking) company to replace the Office for State Industries and the Industrial Credit Bank.[134] From a comparative perspective, just as the "fascist" holding companies (IMI and IRI) would carve a lasting place in Italian industry, so would the Sumerbank in Turkish industry. Moreover, the Turkish company was assigned a more challenging task in the 1930s, that is the task of realizing Turkey's "first five-year industrial plan", FFYIP. Whatever was achieved under this plan would accrue to the company's (i.e., the state's) industrial assets.

The Republican government launched the FFYIP in April 1934. While drawing primarily on Soviet planning experiment and expertise, the Turkish plan was far from being comprehensive. It was rather a project of state investments in a limited number of industries, such as textiles, chemicals, and iron and steel works, whose raw

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[134] Boratav ([1974] 1982, pp. 197-9); Tekeli & Ilkin (1982, pp. 175-9); Thornburg **et al.** (1949, pp. 28-9).

materials were domestically available.[135] Nevertheless, the fact that most of the investment objectives included in the plan were realized on time was a major achievement for etatism. The FFYIP's emphasis on consumer goods industries was compatible with what would be known to postwar underdeveloped capitalism as the strategy of import-substituting industrialization.

In June 1935, the government established another holding company, Etibank, to operate chiefly in mining and hydropower production. The establishment of the Etibank formed in fact the first step towards preparing a new plan.[136] As it was officially endorsed in September 1938, the "four-year plan" put more emphasis on intermediate and capital goods industries, and had a broader coverage including such areas as transportation, mining, energy, agriculture, regional development, housing, not to mention manufacturing. Whereas for the FFYIP the Soviet Union was the major source of foreign credit and expertise, this time the United Kingdom counterbalanced the Soviet influence.[137] Yet the "four-year plan" would not or could not be imple-

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[135] On the targets and achievements of the FFYIP, see Boratav ([1974] 1982, pp. 111-3); Goymen (1976, pp. 134-8); Gunce (1967, pp. 13-7); Hershlag ([1958] 1968, pp. 80-4); Tekeli & Ilkin (1982, pp. 184-201); Tezel ([1982] 1986, pp. 251-60); Thornburg et al. (1949, pp. 26-8); Wyatt (1934b, pp. 836-41).

[136] In 1936, the government prepared a draft "second five-year industrial plan" which it would replace later in 1937 with a "three-year mining program". But, in September 1938, it decided finally on a "second four-year industrial plan" including the 1937 mining program. On these developments and the targets of the "second four-year industrial plan" (which is known rather as the "second five year industrial plan"), see Gunce (1967, pp. 18-21); Mackie (1939, pp. 447-53); Tezel ([1982] 1986, pp. 260-7).

[137] We should note that even the most grandiose project included in the FFYIP, namely the Karabuk iron and steel works, was realized with UK capital and

(continued...)

mented. The government effectively cancelled it in March 1939, barely six months after its inception.

The scope of the etatist industrial policy was, however, broader than that of the FFYIP. During the 1930s, the state was also involved in activities ranging from the nationalization of public utilities and mines to the participation in joint ventures with private businesses.[138] Especially in railway and maritime transportation, the state implemented a comprehensive program of nationalization and monopolization. In the case of railway transportation, not only were virtually all foreign-owned lines nationalized but also total mileage was increased threefold.[139] Also in the 1930s, the state took over all those monopolies controlled by foreign concessionaires. The policy of encouragement for private industry was not dispensed with altogether under etatism.[140] Yet, through a legislation in June 1936, the government assumed extensive powers with regard to controlling and fixing the prices of industrial products.

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[137](...continued)
technology. Interestingly enough, Germany was notable for its absence in either the FFYIP or the "four-year plan". Precisely because of its overwhelming position in Turkish foreign trade, Germany was not sympathetic, to say the least, to the Turkish industrialization drive during the 1930s. On the "incompatibility" of German commercial and Turkish industrial strategies, see Thornburg **et al.** (1949, pp. 39-41).

[138] Boratav ([1974] 1982, pp. 199-214); Tekeli & Ilkin (1982, pp. 201-8, 250-63).

[139] The railway "mileage" increased from 2,455 kilometres in 1929 to 7,437 kilometres (out of which only 434 kilometres were foreign-owned) in 1939/40 (Hershlag [1958] 1968, p. 232).

[140] During the period 1932-9, for example, there had not been any significant drop in the number of (mostly private) industrial establishments which benefited from the 1927 legislation for the encouragement of industries. For this, see Kepenek ([1983] 1987, pp. 67-8).

Moreover, the same legislation authorized the government to check the finances and management of private companies, and to reallocate the industrial establishments regionally.[141]

On the basis of legislation in June 1938, the government grouped certain state companies such as Sumerbank and Etibank under the category of "state economic enterprises" which would administratively and financially be operating on principles separate from those governing the rest of the state-owned companies.[142] Thus, in the course of the 1930s, the Turkish state transformed itself from mainly an agency of incentives for private businesses to one of industrial entrepreneurship per se. The wartime and postwar governments would remain loyal to the spirit, if not the letter, of etatism.[143]

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[141] To some (e.g., Boratav [1974] 1982, pp. 186-9; Goymen 1976, p. 104), the June 1936 legislation was the height of etatism.

[142] The "state economic enterprises" were administratively more "autonomous" and financially more "business-like" than the state monopolies and utility companies which were included in the ordinary administrative and budgetary operations of the central government. The 1938 legislation had even allowed the government to privatize the "state economic enterprises" by transforming them into joint-stock companies. For a detailed account of the "state economic enterprises" in relation to other categories of state ownership and entrepreneurship in the economy, see Hale (1981, pp. 55-61); Hanson (1955, pp. 333-5); Kerwin (1959, pp. 241-4); Okyar (1965, pp. 101-2); Robinson (1963, pp. 103-14); Sarc (1948, pp. 444-5).

[143] On this point, we should make a (re-)statement regarding the place of etatism in Turkish economic policy during the period. Many Left-leaning students of Turkish economic history, not to mention the official and unofficial apologists of the period, tend to view etatism as a general policy posture. Precisely on the grounds of this generalization, they can conclude that etatism began to lose speed in the late 1930s and came to a definite end in the early postwar period. See, e.g., Birtek (1985); Boratav (1981, pp. 172-9; [1974] 1982, chs. 2, 3; 1983, pp. 258-88; 1988a, ch. 3); Goymen (1976). For us, however, etatism is not the equivalent, but the (mainly) industrial-

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Turkey's "employment policy" in the 1930s was more about proletarianizing the labour force through etatism than about creating jobs for the unemployed. As etatism expanded the base of industrial labour force, the state in turn instituted a paternalistic labour relations system, which was best expressed in the Labour Code of June 1936.[144] In its industrial relations and social policy provisions, the Labour Code covered only those establishments which operated in sectors outside agriculture, (air and maritime) transportation and the "public" services, and which employed at least ten workers.[145] Drawing on Italy's "corporatist" Labour Charter of 1927, the Turkish Labour Code introduced a system of compulsory state arbitration and banned

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[143](...continued)
policy component, of neomercantilism as Turkey's economic-policy paradigm (which includes also the "autarkic" foreign trade and "stringent" financial policies).

Aside from the war period during which there was no new industrial investment on the part of the state (whose **dirigisme** with respect to the overall economy increased drastically, nevertheless), the postwar period witnessed a progressive increase, not decrease, in state industrial activity in both absolute and relative terms. What the postwar "liberal" governments did away with then was not etatist industrial policy but the autarkic foreign trade and conservative macroeconomic policies of the 1930s. The shift in the foreign and macroeconomic framework of the Turkish economy during the postwar period convinced those economic historians in question to declare the end of etatism, since they defined etatism in such a way that it included autarky and financial "frugality" as well.

[144] In fact, the preparations for a labour legislation had begun from the early 1930s on. In March 1932, the government introduced to legislature a proposed Labour Code which had drawn on the legislations of such countries as Bulgaria, Greece, and Romania. The bill would eventually be shelved in the sub-committees of the legislature (see Ilkin 1978, pp. 263-90, 312-47 on the fate and content, respectively, of this proposed Labour Code). Most of its principles, however, were included in the Labour Code of June 1936.

[145] On the industrial relations and social policy provisions of the Labour Code of June 1936, see Andic (1957); Hale (1981, pp. 64-8); Hershlag ([1958] 1968, pp. 312-22); Webster (1939, pp. 255-8).

unionization as well as strikes and lockouts. Among the most important social provisions of the Code were the 48-hour week, a state employment service to have monopoly on job placement, and a state insurance scheme for industrial accidents, unemployment, old age and so on (the establishment of such a scheme would wait the end of the war).[146]

Until the etatist initiatives of July 1932, the agricultural sector did not see any major support measures on the part of the state. In fact, with the first sign of the crisis in the country's balance of payments in 1930, the government began to hold back the process of mechanization in agriculture by cancelling the exemptions from customs duties and credit incentives for agricultural implements imports.[147] In the meantime, the Agricultural Bank, the main state agency within the sector, continued to favour intermediaries through commercial credits which ended up in the hands of direct producers at usury rates. The only notable interventionist measure taken with regard to agriculture during the pre-1932 crisis period was the authorization in 1930 of the state tobacco monopoly to make exports as well.

The etatist initiatives of July 1932 included two pieces of legislation for agriculture: one had to do with the inauguration of the wheat-support purchases to be handled by the Agricultural Bank and the other, with the establishment of a full

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[146] Another legislation on the part of social policy was the Public Health Act of May 1930, which aimed to improve the working conditions of female and child workers in particular.

[147] Tekeli & Ilkin (1977, pp. 186-97; 1988, p. 85).

producers' monopoly in the domestic and foreign marketing of the opium crop.[148] In May 1934, the government imposed a special tax on flour and flour-made products in order to finance the support program for wheat production. Beginning in 1935, the government also organized marketing and credit cooperatives under the administration of the Agricultural Bank. These cooperatives could make a headway only in export-oriented and/or locally-processed cash crops.[149] In line with the import-substituting industrial policy, the state placed a special emphasis on the production of such crops as cotton and sugar beet.

In the second half of the 1930s, state policies towards agriculture took on a more comprehensive form. In June 1938, the government established the Office for Soil Products which, as a "state economic enterprise", took over from the Agricultural Bank the grain-marketing and elevator-operating functions. The Office was in fact part of a broader "reform" project regarding agriculture. In 1937, the government contemplated, to no avail, a "four-year agricultural plan" for the purpose of setting up "rural combines".[150] The same year, a Constitutional amendment allowing the

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[148] In the 1932 crop year, the Agricultural Bank began the wheat-support purchases on an experimental basis. The opium-monopoly legislation was diluted later in 1933. On these developments, see Hale (1981, pp. 61-4); Silier (1981, pp. 77-88); Tekeli & Ilkin (1982, pp. 109-18).

[149] On agricultural credit and cooperation during the 1930s, see Kepenek ([1983] 1987, pp. 37, 63); Silier (1981, pp. 88-91); Tekeli & Ilkin (1982, pp. 118-32); Tezel ([1982] 1986, p. 351).

[150] Avcioglu ([1968] 1977, pp. 485-7); Hershlag ([1958] 1968, p. 111).

In February 1937, the government actually set up a Rural Combines Administration which would, pace the name, be confined in function to operating service stations for agricultural implements (Tekeli & Ilkin 1988, p. 49). In January

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government to take redistributive initiatives in land ownership was passed in the legislature. Yet "land reform", not to mention "collectivization", did not become an actual topic in the policy agenda of the government during the 1930s, regardless of the intentions and projects surrounding it.[151]

The Monetary and Fiscal Framework

From the perspective of the industrial and semi-industrial economies of Western Europe and North America, balanced budgets meant continuity with the past. From a Balkan perspective, however, they meant a break with the past. Thus, while falling in the category of "classical orthodoxy", Turkish financial policies were "innovative" in the institutional sense of the term.

An early initiative of the Turkish government in monetary policy was the

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[150](...continued)
1938, the government also established an Agency for State Agricultural Undertakings to take care of the "experimental farms" previously owned by the country's President. Although both institutions were reorganized and transformed into full-fledged "state economic enterprises" during the 1940s, they were far from becoming forces of "collectivization" in agriculture.

[151] While land redistribution occurred in the 1930s, most of the lands redistributed were public lands and most of the beneficiaries were repatriated families (Hershlag [1958] 1968, p. 78; Silier 1981, pp. 74-7). The only redistributive measure against large landownership during the period was the Settlement Act of 1934 which was, however, a political rather than economic legislation. The Act authorized the government to take confiscatory measures against large holdings in Kurdish provinces (for a partial text of the Act, see Besikci [1977] 1991, pp. 111-29). Yet the government would not or could not use its mandate because of the counterpressures put by the large landowners from other regions (Aktan 1966, pp. 319-20; Tezel [1982] 1986, pp. 322-6).

establishment of the Central Bank in June 1930. One month after the imposition of exchange controls, the Ministry of Finance, domestic banks, and foreign banks operating in the country set up a Consortium of Banks for currency stabilization. This Consortium formed the nucleus of a central-banking mechanism.[152] In June 1930, the government established the Central Bank, which would not begin its full operations until January 1932. The Bank had a joint-stock company status with the government, domestic banks, foreign-owned banks, and other domestic financial institutions holding fixed shares.[153]

The state's intervention in banking at the institutional level was not confined to creating a central-banking mechanism (and investment-banking structures). In addition to strengthening the Agricultural Bank, the government also established new specialized banks for, e.g., small businesses and municipal works in the 1930s. That both these specialized banks and the holding companies were involved in commercial-banking operations as well further increased the influence of the state in banking.[154]

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[152] On the work of the Consortium of Banks, see Ilkin (1975, pp. 572-82); Tekeli & Ilkin (1977, pp. 115-9; 1981, p. 231).

[153] The capital of the Central Bank was obtained from the American-Turkish Investment Corporation (an affiliate of the Swedish Kreuger group) in return for a concessionary monopoly in matches and lighters. For the text of the Central Bank Act ("Turkiye Cumhuriyet Merkez Bankasi Kanunu [June 11, 1930]", see Tekeli & Ilkin (1981, app. 20).

[154] As to the state regulation of commercial banking, the most notable initiative during the period was a 1933 legislation which fixed the minimum amount of capital that individual branches had to have in order to accept deposits. The legislation aimed at small, local banks in particular. Another 1933 legislation fixed the maximum interest rate at which "informal credit institutions" could lend (Tekeli & Ilkin 1982, pp. 297-301). This measure against usury would fail in the very sector which it was intended for, namely agriculture.

Within this institutional framework, Turkish monetary policies were strictly deflationary. The Republican governments did not print new paper money until 1939. The increase in the amount of bank deposits (as another indicator of "money supply") over the 1930s did not have a reflationary effect.[155] The movement of the wholesale commodity prices, for example, indicates the deflationary stance of Turkish monetary policy. The wholesale commodity price index (1948=100) dropped from a high of 35 in 1929 to a low of 17 in 1933 and began to go up thereafter to stand at 21 in 1938.[156]

As for the financing of Turkish etatism, the Republican governments tapped every possible resource, internal and external, without jeopardizing the fiscal solvency of the state. That foreign capital played only a secondary role in the financing of etatism had to do less with the reluctance of these governments to borrow from abroad than with the reduced capacity of the imperial(-ist) centres to export capital in the face of difficulties at home. The foreign borrowing Turkey made during the period was composed of a concessionary loan in 1930 (from the American-Turkish Investment Corporation, an affiliate of Swedish-based Kreuger match enterprises), which constituted the capital of the Central Bank, the Soviet industrial credits of 1932, and UK industrial and military credits in 1936-8.[157]

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[155] On the changes in "money supply" during the 1930s, see Hale (1981, p. 69/tab. 4.3); Tezel ([1982] 1986, p. 111/tab. 3.8).

[156] Gulalp (1983, p. 126/tab. 6).

[157] In the meantime, the industrial credit agreements concluded with Italy and Germany in 1932 and 1939, respectively, did not materialize. On foreign borrowing (continued...)

In the meantime, Turkey's foreign-debt servicing was largely confined to two items: the Ottoman debts and the debts resulting from nationalizations.[158] In neither instance did these payments become a serious burden on "general budgets". After fully paying the first instalment of the Ottoman debts in 1929, the Republican government forced foreign bondholders to renegotiate, and managed to ease the terms and conditions of servicing the rest of the debts.[159] In the case of servicing the debts resulting from nationalizations especially in railways, the payment made out of the "general budgets" was much less than the payment made out of the "annexed budgets" of the State Railways Administration. This brings us to the fiscal organization and position of the Turkish state.

During the world economic crisis, the Republican government lived up to its commitment to "sound financing" while, at the same time, implementing an aggressive industrialization program. In the central government's "general budgets" from 1929-30 to 1937-8 fiscal years, the size of the aggregate surpluses was almost five times that of aggregate deficits.[160] One of the factors accounting for the aggregate surplus in

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[157](...continued)
in the 1930s, see Hale (1981, pp. 74-5); Hershlag ([1958] 1968, pp. 64, 93-5); Kuyucak (1939, p. 51).

[158] Tezel ([1982] 1986, p. 182/tab. 6.5).

[159] Turkey negotiated the Ottoman debts several times in the course of the 1930s. Each negotiation brought about a new ease with servicing the debts. On this, see Kuyucak (1939, pp. 12-3, 49-50); Tekeli & Ilkin (1977, pp. 43-5, 140-54); Wyatt (1934a).

[160] During this period, deficits occurred only in three fiscal years: 1929-30, 1931-2, and 1933-4 (Kuyucak 1939, tab. 6). However, according to the data presented in
(continued...)

"general budgets" over the period relates to the financial organization of the state. The "general budget" calculations completely excluded the financial operations of the "state economic enterprises" (e.g., Sumerbank and Etibank) while partly including those of the "annexed budget establishments" (e.g., the State Railways Administration).[161]

It was, however, the taxation and price-fixing policies that were crucial to achieving an aggregate "general budget" surplus, and to the "sound-financing" of etatism in general, over the 1930s. The Republican government not only maintained all preexisting taxes but also imposed new, indirect taxes aimed at consumer goods.[162] This indirect-tax strategy was highly suitable for increasing revenues in a deflationary price environment. The government generated additional revenues also by fixing the prices of basic consumer goods and services under state monopoly at artificially high levels. Coupled with the imposition of heavy taxes on consumption, the manipulation of the internal terms of trade in favour of state-owned industries

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[160](...continued)
Hershlag ([1958] 1968, p. 89/tab. 10), all "regular state budgets" between 1930-1 and 1939-40 (except for 1932-3) ran deficit since the budget receipts included loans as well as revenues. Yet there is no correspondence between the receipt columns of the Kuyucak and Hershlag tables.

[161] See Thornburg et al. (1949, pp. 146-51) on this aspect of the central government's "general budgets".

[162] See Onder (1988, esp. pp. 125-6) on agricultural taxes in particular; Tekeli & Ilkin (1982, p. 49/tab. 26) on the comparative weight of the main taxes in budget revenues in the first half of the 1930s; Tezel ([1982] 1986, p. 372/tab. 12.3) on the composition of budget revenues in general.

brought about the fiscal "achievement" of Turkish neomercantilism.[163]

What defined Turkey's response to the Great Depression were autarky, import-substituting industrialization, and a mechanism of domestic financing based on "primitive accumulation". With these three features, the Turkish response was an exemplary case of neomercantilism in the peripheral context. Compared with the rest of the Balkans, Turkey proved to be more innovative and the Turkish state, more interventionist in the concrete form of "etatism".

The "European" Balkans

The Balkan countries in the European expanse were equally autarkic in foreign trade and exchange relations. Moreover, they proved to be bolder than Turkey in the case of foreign-debt servicing, which they practically suspended. Whereas Greece openly devalued its national currency; Bulgaria, Romania, and Yugoslavia had recourse to "disguised devaluation" through a system of export bonuses.[164] In agriculture, all

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[163] When considering the central and local government budgets together, however, we have a different picture --the financial operations of the "state economic enterprises" and, in part, of the "annexed budget establishments" are still outside the picture. While both revenues and expenditures increased relative to the gross domestic product over the 1930s, the level of expenditures was (slightly) higher than that of revenues in all these years except for 1932 (Tezel [1982] 1986, p. 369/tab. 12.2).

[164] For the foreign trade and exchange policies of particularly Bulgaria, Romania, and Yugoslavia, see Berend & Ranki (1974, ch. 10); Notel (1986, pp. 227-9, 243-5); Ranki (1983, ch. 5); Raupach (1972); Spulber (1959, pp. 265-77).

four states made interventions in favour of small producers (grain growers in particular) by providing them with debt relief, price subsidies, and monopoly marketing arrangements. In their industrial policies, there was an intriguing contrast to Turkish etatism. During the 1930s, every Balkan state other than Turkey relied primarily on private ownership and entrepreneurship as the driving force of import-substituting industrialization, and consequently put the emphasis on "external" measures such as cartellization schemes, protection of the domestic market, and various financial incentives.[165] At the macroeconomic level, however, the Balkan economies had the same framework: deflation and retrenchment.[166]

Bulgaria was the only country in the region that maintained the gold standard officially throughout the 1930s. Indeed, the gold parity of the Bulgarian currency remained almost the same from 1928, when it was pegged to the gold standard on a **de jure** basis (practically in 1926), to 1939.[167] This was, however, a German-style connection to gold. For example, a system of export premiums was introduced to offset the disadvantages of an overvalued currency for the export sector. More importantly, beginning in 1931, Bulgaria imposed strict foreign exchange and trade (import and

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[165] For the agricultural and industrial policies of these Balkan states, see Berend (1985, pp. 176-82); Lampe & Jackson (1982, pp. 448-56, 482-519); Ranki (1985, pp. 64-72); Ranki & Tomaszewski (1986, pp. 21-40); Teichova (1989, pp. 939-61).

[166] On this, see Lampe & Jackson (1982, pp. 469-82); Spigler (1986, pp. 125-40).

[167] Between 1929 and 1939, the Bulgarian currency depreciated only by 1% in gold terms whereas the Yugoslavian, Romanian, and Greek currencies depreciated by 24%, 30%, and 63%, respectively, again in gold terms (Lampe & Jackson 1982, p. 471).

export) controls to be administered by the central bank. These controls opened the way for the full integration of the country's economy into German bilateral clearing-trade network.

The sector in which the Bulgarian state intervened most comprehensively during the 1930s was agriculture. In December 1930, the state established a central grain purchasing agency to support producers with high floor prices and to make grain exports on a monopoly basis.[168] Later on, this agency acquired a monopoly position in grain purchasing and extended its purchasing activities to other crops like cotton and tobacco. The whole program was financed by the Agricultural Bank and the Cooperative Bank (which were merged in 1934 to form the State Agricultural Bank). Through these organizations, the state also encouraged cooperative credit with lower interest rates and took numerous debt relief measures especially for small farmers. In comparison with agriculture, industry saw little on the part of state encouragement. Although, in 1931, the Bulgarian tariff levels for manufactures and semi-manufactures were the highest in the region, the state did not initiate any new program of incentives for domestic industries in the 1930s.[169] On the contrary, light consumer-goods industries were gradually excluded from the framework of the 1928 legislation for the encouragement of industries.

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[168] Lampe (1986, ch. 3); Ranki & Tomaszewski (1986, p. 23).

[169] In Bulgaria, the average percentage **ad valorem** tariff levels were 133 for foodstuffs, 65 for semi-manufactures, and 90 for manufactures. The respective levels were 88, 46, and 55 in Romania and 75, 31, and 33 in Yugoslavia (Lampe & Jackson 1982, p. 413/tab. 11.10; also Teichova 1989, p. 943). For Bulgarian industrial policy in general, see Lampe (1986, pp. 93-4, 98-101).

In macroeconomic terms, Bulgaria fully conformed to the Balkan pattern of economic policy. Under deflationary conditions, the state's monetary activity was confined for the most part to the institutional realm. For example, in the banking sector in which state banks already had a predominant place, the state organized the merger of numerous private commercial banks into larger units. Despite spending cuts and tax increases especially in nonagricultural sectors, budgets ran deficit out of necessity.

The second country in the region that officially adopted the postwar gold standard was Greece. The Greek currency was pegged to the gold standard in 1928 shortly after the Bank of Greece was reorganized as a full-fledged central bank.[170] In April 1932, Greece abandoned the gold standard and devalued its currency at a substantial rate. This marked the beginning of a period of foreign exchange and trade controls, which in turn pushed the foreign sector of the country's economy towards German (and, secondarily, Italian) clearing-trade network. Until 1936, when the United Kingdom launched an economic offensive against Germany in the region, Greek foreign trade revolved primarily around German bilateral clearing-trade orbit.[171]

That the United Kingdom counterbalanced Germany in the foreign economic relations of Greece in the late 1930s coincided with the increasing industrial interventionism of the Greek state under the Metaxas dictatorship. The institutional

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[170] Freris (1986, pp. 61-7).

[171] On UK-Greek **rapprochement** in the second half of the 1930s, see Mazower (1988, pp. 612-9).

foundation of state intervention in agriculture was laid in the late 1920s and early 1930s. Among the organizations established before the "democratic breakdown" of 1936 were a wheat purchasing agency (1927); the Agricultural Bank (1929) to extend credit to, and encourage cooperation among, small farmers against usury; and a tobacco purchasing agency (1931). During the Metaxas period, this agricultural support system was strengthened and, in the case of wheat production, refashioned in the interests of self-sufficiency.

As for industry, the first protective tariffs and import quotas were introduced in 1933 with an increasing emphasis on domestic production.[172] It was only in the late 1930s that domestic industries could make rapid strides (e.g., the country had its first steel mill in 1937). During the period 1936-40, the Metaxas regime also experimented with industrial regulation and social protection. On the one hand, the labour unions were strictly disciplined, if not banned altogether, under a system of compulsory arbitration. On the other hand, the industrial labour was protected under a social security scheme.

While the Greek currency depreciated substantially in gold terms, the Bank of Greece followed a deflationary course at home. Immediately after going off the gold standard and making currency devaluation in April 1932, Greece defaulted on its foreign-debt payments. This was a "breach" of the rules of the International Commission for Economic Control, which was installed back in 1897 to oversee Greece's orderly payment on its foreign debts. With the foreign-debt servicing being

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[172] On Greek industrial policy in the 1930s, see Freris (1986, pp. 89-97).

practically put off, the state budgets were concluded with surpluses between 1932 and 1937.[173]

Romania and Yugoslavia maintained an indirect relationship to the gold standard throughout the 1930s by pegging their currencies to a major gold-based currency. As a result of this, the Romanian and Yugoslavian currencies, while depreciating to some extent in gold terms, became overvalued in relation to those currencies that were unambiguously off the gold standard. Likewise, both countries adjusted their foreign trade relations to German clearing system by imposing exchange and trade controls to be implemented by the central banks.[174]

The Romanian and Yugoslavian states developed similar domestic economic policies as well. In Romania, the state established agencies for grain purchasing (1932) and agricultural credit (1937), which supported direct producers through high floor prices and debt relief measures. In Yugoslavia, state intervention in agriculture took on a more monopolistic form. Whereas the grain purchasing agency (1930) acquired a monopoly position in foreign and domestic marketing, the Agricultural Bank, established back in 1919, became the sole agricultural credit institution by taking over from private banks all producers' debts, which it would reduce significantly.[175]

Both states introduced new incentives for the development of domestic

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[173] Freris (1986, p. 54).

[174] See Ellis (1941, pp. 262-5) on Yugoslavia; Turnock (1986) on Romania.

[175] Ranki & Tomaszewski (1986, p. 23); Singleton & Carter (1982, ch. 4).

industries. In Romania, where private cartellization had made unprecedented headway in Balkan terms, the 1936 legislation for industrial encouragement provided the newly established import-substituting industries with monopoly rights in the domestic market for a certain period of time.[176] Similarly, the Yugoslavian industrial incentives program of 1931 obliged the state economic sector to use domestically-produced industrial inputs.[177]

While all five Balkan countries had a peripheral position in the world economy, they differed from one another in terms of the degree of industrialization. From an overall perspective, the main "developmental" gap was between Turkey, on the one hand, and Greece, Bulgaria, Yugoslavia, and Romania, on the other. With the "highest degree of backwardness" in the Balkans, Turkey produced the most innovative version of neomercantilism in the region. "Backwardness" in and of itself is not, however, an advantage for innovation. What made the Turkish neomercantilism more innovative than its regional counterparts was the "right" combination of the "higher degree" of economic backwardness with the "higher degree" of authoritarian-political institutionalization and innovation.

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[176] Lampe & Jackson (1982, pp. 498-9); Ranki & Tomaszewski (1986, p. 19).

[177] Needless to say, the Romanian and Yugoslavian macroeconomic policies conformed to the pattern of deflation and retrenchment.

SUMMING UP

Economic innovation requires political innovation. Every single innovative economic response to the Great Depression of the 1930s was preceded by political innovation. Yet these innovative responses, political and economic, differed from one another either in kind or in degree. What accounted for the variation in innovation or orthodoxy for that matter? In the metropolitan context, I emphasized the role of the political regimes and financial systems. In the small-country context, I emphasize the role of the imperial/metropolitan connections as well.

The most important conclusion that can be derived from the details of the Dominion, Scandinavian, and Balkan defensive responses to the world economic crisis is that the Canadian, Swedish, and Turkish cases defined the main policy divide among the three geo-social configurations. In the Dominions, Canada shaped its protectionist response primarily on a trade-centred agenda. In contrast, Australia and especially New Zealand gave protectionism a "social touch". In Scandinavia, Sweden's response had the "ideal-typical" policy mix of protofordism, including industrial free trade, monetary management, demand stimulus, and labour-market/industrial-relations regulation. In the Danish and Norwegian cases, protofordism was "diluted" with industrial protection and fiscal conservatism. In the Balkan neomercantilist context, Turkey used a blitz program of autarky, industrial planning, and "primitive accumulation", whereas its regional counterparts were more gradualist and less interventionist.

In the next three chapters, I tackle these intra- (and inter-) geosocial differences

by highlighting the political-regime, financial-system, and metropolitan-linkage features in dialogue with such factors as the depression experience, domestic-group composition, policy heritage, and state organization. In Chapter 4, I take up Canada's trade-centred protectionism in relation to the "social" protectionism of the Antipodean Dominions. Similarly, in Chapter 5, I deal with Sweden's protofordist experiment by using the Danish and Norwegian cases as contrasts. And, in Chapter 6, I make two comparisons regarding Turkey's neomercantilism: an intra-geosocial one and, on a secondary plane, an inter-geosocial (namely, Iberic-Latin) one.

CHAPTER 4

CANADA IN THE DOMINION LIBERAL CONTEXT

Canada gave a protectionist, not protofordist, response to the Great Depression of the 1930s. In its protectionist response, moreover, it relied primarily on industrial tariff policy. Like Canada, the Antipodean Dominions made use of industrial tariff policy in their protectionist responses. Unlike Canada, however, they, especially New Zealand, combined industrial protection with social protection and equally resorted to currency devaluation for competitive purposes. Thus, despite the fact that Canada countered the crisis with a trade-centred protectionist platform, it was not as effective as Australia and New Zealand in protecting its economy, not to mention its population.

This chapter has one core objective: to account for the Dominion convergence in protectionism and for the Canadian-Antipodean divergence within that convergence. I emphasize the political-regime, financial-system, and metropolitan-linkage features in accounting for the protectionist convergence among the Dominions. The political-regime and metropolitan-linkage, if not financial-system, features had their impact also on the intra-geosocial divergence between Canada, on the one hand, and the Antipodean Dominions, on the other. Yet, in this divergence, domestic-group features, most notably working-class weakness or strength, were similarly effective.

The key to Canada's tariff-centred protectionist response lay in its majoritarian/-elitist liberal polity, "industry-shy" financial system, and dual (UK and US)

metropolitan linkages. While all three Dominion polities were majoritarian liberal, the Canadian polity was doubly exclusionary due to its elitist characteristics. During the 1930s, there was a significant level of popular pressure for a change of policy direction. The "third parties" pushed for innovative policies, but to no avail. Their voice was lost among the majoritarian/elitist institutions of the Canadian polity. A second obstacle to policy innovation was the Canadian financial system. Unharmed and unscathed during the most severe crisis of all Canadian economic history, commercial "chartered" banks silently watched the collapse of other sectors and remained the guardians of financial orthodoxy. Currency devaluation and monetary reflation were anathema to these banks which were small in number and large in size. Yet, under similar financial arrangements, Australia and New Zealand devalued their currencies.

While all three Dominions had the United Kingdom as their imperial and metropolitan centre, Canada had a second metropolitan centre, the United States. The reason why Canada did not resort to currency devaluation for export promotion had to do as much with its financial linkages with the United States as with its native financial institutions. Moreover, the United States played a critical role in Canadian tariff policy. US trade policies were a barometer of the changes in Canadian tariff levels during the 1930s.

This chapter is organized in four sections. In each section, the cases of Australia and New Zealand are presented as contrasts to Canada. The first section portrays Canada's depression experience and foreign economic connections during the period. In the second section, I tackle the issue of domestic-group alignments in

relation to federal economic policies both from a depression and historical perspective. This section is also where I highlight Canada's "chartered" banking-system and "protectionist" policy heritage. The third section is more "political". It attempts a policy-focused analysis of the Canadian polity in its electoral, party, legislative, and executive aspects. The fourth section concludes the chapter and makes a connection to the subsequent chapter on Sweden.

THE "DIRTY THIRTIES" OF AN OPEN ECONOMY

During the 1930s, Canada went through one of the most severe and protracted economic crises in the world. In fact, the Canadian downswing was second only to that of the United States in severity and to that of France in duration. For example, in 1932, industrial production in Canada was merely 58% of what it had been in 1929. And it would not reach 1929 levels until 1937.[1] From the more "human" side of the picture, unemployment among wage-earners rose from a low of 4% in 1929 to a high of 27% in 1933. As of 1939, the unemployment rate was still around 14%.[2] At the level of the overall economy, the national income index (1929=100) was slightly above 50 in 1933 (when the trough of the depression was reached) and slightly below 90 as

[1] In 1932 and 1937, the respective industrial-production indices (1929=100) were 53 and 103 for the United States, and 77 and 83 for France (Safarian 1959, p. 59).

[2] Struthers (1983, p. 215); also Saunders (1939, p. 9/tab. 2).

late as 1939.[3] For Canada, as for many other countries, the way out of the depression was the start of the Second World War.

We also know that the economic policies the federal government of Canada produced in response to this severe and protracted depression had little, if any, resemblance to a countercyclical stance. Moreover, federal economic policies exacerbated the trends unleashed by the depression. In their procyclical stance, the governments, Conservative and Liberal alike, reinforced the harm the depression had done to the economy and population. Now, let us turn our focus to this process.

The Unequal Call of the Depression

For Canada, the Great Crash of October 1929 meant the end of the "Roaring Twenties" and the beginning of the "Dirty Thirties". The Crash heralded the most paradigmatic shift from "boom" to "bust" in all Canadian economic history. This being the case, we should not overlook the differing sectoral trends that underlay the economy-wide trend. The experience Canadians had of the economic hardships varied greatly across sectors.

The export-oriented resource sectors of the economy bore the brunt of the depression. Yet, even among these sectors the burden was spread unevenly. Those resource sectors which served mainly the US market were not as affected as those

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[3] Calculated from Urquhart & Buckley (1965, p. 130/ser. E 1-12). According to the same source, the gross national product index (1929=100) fared a little higher: 57 (1933) and 92 (1939).

serving the overseas, primarily UK, markets. Nonferrous mining, and pulp and paper production are the two cases in point.[4] Their cost of production advantages (including geographical proximity) offset the crisis-specific competitive disadvantages they faced in the US market, such as a higher Canadian dollar and the devalued currencies of the overseas, notably Scandinavian, competitors. Yet the lack of a competitive currency devaluation in Canada would become a major impediment for those Canadian exports which had no such cost of production advantages relative to their competitors in overseas markets.

This was, first and foremost, the case with wheat whose export markets were overseas, most significantly, in the United Kingdom. The fate of the wheat economy had devastating consequences for the overall economies of the three wheat-growing Prairie Provinces in Western Canada, namely Alberta, Manitoba, and especially Saskatchewan.[5] Whereas there was no marked decline in wheat production even at the trough of the depression, the prices at the Winnipeg wheat market literally collapsed.[6] Considering the critical position wheat had occupied in Canadian agriculture, this price

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[4] See Marcus (1954, ch. 4); Safarian (1959, ch. 7) on how nonferrous mining, and pulp and paper production fared during the 1930s.

[5] Among the three Prairie economies, Saskatchewan's was the most dependent on wheat production. To make matters worse, Saskatchewan wheat growers would suffer not only from the human-made phenomenon of economic disaster but also from natural disasters such as drought and grasshoppers. The collapse of the Province's single-crop economy put extraordinary strains on its government and, more importantly, population. See Britnell (1934; 1936; 1939, ch. 5) on Saskatchewan in particular; Mackintosh **et al.** (1935, ch. 10) on the three Prairie Provinces in general.

[6] The price of a bushel of wheat declined from 124 cents in 1930 (1925=168 cents) to 60 cents in 1932 (Mackintosh **et al.** 1935, p. 283/tab. 4).

collapse resulted in a drastic deterioration of the internal terms of trade against agriculture.[7] To make matters worse, the fact that the dollar was not devalued on a competitive basis weakened the position of Canadian wheat in export markets. Australia and Argentina, as Canada's two largest competitors in the crucial UK market, gained an important advantage by devaluing their currencies early in the 1930s.[8]

In contrast to the export-oriented resource sectors, the primarily home market-oriented industries based in Central Canada (Ontario and Quebec) benefited from federal trade policies. Tariff protection constituted a buffer against the further inroads of the crisis on the industries and, with them, workers of this region and, to some extent, Nova Scotia in Atlantic Canada. In relational terms, the tariff protection of Central Canada, the country's industrial heartland, amounted to a policy of diverting the burden of the depression to outlying export-dependent regions.[9]

At the same time, the high tariff rates applying to "foreign" industrial goods

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[7] For example, in all Canada, the price indices (1929=100) for agriculture and agricultural implements during 1932 were 48 and 97, respectively (Fowke 1957, p. 101/tab. 6). According to the same source, the production indices for agriculture and agricultural implements during the same year were 113 and 9 [sic], respectively. In the case of Saskatchewan, the 1933 price indices (1913-4=100) for wheat, (147) items wheat farmers bought, and these farmers' purchasing power in general were 52, 124, and 42, respectively (Britnell 1936, p. 151/tab. 5).

[8] Marcus (1954, pp. 97, 103). On the adverse effects of the "strong dollar" policy on primary exports in general see, Royal Commission on Dominion-Provincial Relations (1940, book 1, pp. 151-7).

[9] On this twofold discriminatory (positively for Central Canada and negatively against primary-exporting regions) aspect of industrial tariff policy, see Brodie & Jenson (1980, p. 160); Eggleston (1934, p. 534); Innis (1934, p. 16); Mackintosh ([1939] 1964, pp. 170, 176-7); McDiarmid (1946, ch. 16); Royal Commission on Dominion-Provincial Relations (1940, book 1, pp. 149-50, 157-60); Whiteley (1934, p. 121).

and the British preferential treatment system, which was strengthened through the Ottawa agreements, formed a further incentive for US industries to open branch plants in Canada with an eye to producing for both Canadian and general British markets.[10] This was evident by the fact that the US share of foreign direct investment in Canada was constantly around 82% during the 1930s and that the share of foreign direct investment in total foreign (direct and portfolio) investment registered a modest increase.[11] In order to have a full understanding of the stability in the level of US direct investment in Canada throughout the period, we should also take into account the industrial depression in the United States, which was the most severe in the world.

Changes in the ratio of imports to home production in all manufactures further illustrate the relatively mild effects of the depression on, and the favourable consequences of tariff protection for, the industrial sector. The ratio of imports to gross value of Canadian production in manufacturing declined from 26% in 1928 to 13% in 1933 and gained only one point as of 1936 (14%).[12] Conversely, while declining in

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[10] According to Orville J. McDiarmid (1946, p. 329), as of 1934, 26% of the total branch plants in Canada was established or acquired between 1930 and 1934 (see also Marcus 1954, p. 101).

[11] The share of foreign direct investment in total foreign investment increased from 32% in 1930 to 33% in 1939 (calculated from Urquhart & Buckley 1965, p. 169/ser. F 193-207).

[12] Mackintosh ({1939} 1964, pp. 166-7/tab. 19). The table also includes a breakdown of imported manufactures according to tariff categories. Of the total imported manufactures in 1928, the preferential category accounted for 15%; the treaty, 8%; and the general, 77%. For 1936, the percentages were 29, 43, and 29, respectively. Whereas the increase in the share of preferential imports (read: imports from the United Kingdom) in all imports had to do with the Empire "free trade" policy launched through the Ottawa agreements of 1932, the more marked increase in the share of

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absolute terms, domestic manufacturing production increased its share of the Canadian market. As a result, industrial workers enjoyed a certain degree of employment and income security that eluded most of those workers based in primary resource sectors in particular.

During the depression, the industrial sector fared well only relative to the export-oriented resource sectors. In contrast, the financial community based in Montreal and Toronto did well both in relative and absolute terms. Even during the worst years of the general economy, the "chartered" banks, which led this community, did not experience any dislocation. The commercial, branch-banking system proved to be "crisis-free".[13] This was in sharp contrast to the crises endured by the industrial banking systems in Continental Europe and, more tellingly, the United States. The predominance of commercial banking in Canada, coupled with the orthodox monetary and exchange policies of the federal government, put further strains on the fiscal solvency of those provincial governments which had to support a large class of independent primary producers through direct relief and/or debt relief. Financing these and other relief programs would in turn require all three levels of government to make use of taxation on an increasing scale.[14]

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[12](...continued)
treaty imports (and decline in that of general imports) had to do with the change in the status of imports from the United States from the general to treaty category following the US-Canadian trade agreement in 1935.

[13] Safarian (1959, p. 58).

[14] MacGregor (1936, pp. 167, 173); Royal Commission on Dominion-Provincial Relations (1940, book 1, p. 164).

Federal economic policies exacerbated the unequal effects of the depression across the various sectors (and regions). The export-oriented resource sectors in general were hurt the most. Whereas tariff protection cushioned the worst effects of the depression on manufacturing industries, deflation and high-dollar policies made the financial community better off both in relative and absolute terms. And in this doubly discriminatory process we find the first clues of two different domestic-group "fronts". Before delving into sectoral alignments, however, we should examine the foreign connections of the overall economy. These connections were important to both the domestic-group and federal-policy behaviour.

Between the United Kingdom and the United States

For the second half of the 1920s prior to the Great Crash, Canada had been registering uninterrupted trade surpluses with the outside world, with the terms of trade being in its favour.[15] Despite the heavy payments (on interest and dividends) that it made as a net debtor country, its current account (including trade) also had surpluses during the same period.[16] This opened the way for Canada to export capital in 1925,

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[15] On Canada's terms of trade, see Urquhart & Buckley (1965, p. 184/ser. F 357-359); also Mackintosh ({1939} 1964, pp. 76-7/tab. 5).

[16] Statistics on Canada's balance of payments position before the Second World War are incomplete. The table in Knox (1939, pp. 89-93), which includes the 1900-37 period, is the most satisfactory one that I came up with. For a summary version of the Knox table, see Mackintosh ({1939} 1964, pp. 76-7/tab. 5). The balance of payments table in Buckley ({1955} 1974, p. 212/tab. G) does not serve our purpose since it

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1927, and 1928.

Canada's terms of trade began to deteriorate with the onset of the crisis in late 1929. The terms of trade index, which was as low as 87 in 1932, hovered below the 1929 base (100) for the rest of the 1930s with the exception of 1937.[17] In terms of the balance of international payments, Canada registered deficits in its trade from 1929 to 1931 and its current account from 1929 to 1932. These deficits were met by capital imports during 1929-31, notably in 1930. Canada would continuously record trade and current account surpluses beginning in 1932 and 1933, respectively. Also from 1932 on, the net long-term capital flow turned outward, i.e. in favour of exporting.[18] As one Canadian observer put it resentfully, "the worse the state of domestic activity, the better the international position became".[19]

Moreover, Canada's favourable balance of payments position in most of the

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[16](...continued)
includes only the current account in quintiles for the 1901-30 period. Likewise, the table in Urquhart & Buckley (1965, pp. 160-1/ser. F 57-71) includes only the current account, this time, for the 1926-45 period and on a yearly basis (and in two sub-periods, namely the 1926-to-1937 and 1938-to-1945 bases). However, the Urquhart-Buckley table is more analytical in that it also gives Canada's current account with countries or groups of countries. While the table in Malach (1954, pp. 86-90/tab. 11) is as comprehensive as the Knox table which includes both the current account and the long-term capital movement (inflow-outflow or import-export), it covers a shorter period, namely 1919-35. Moreover, these tables are not always consistent with each other. Since the Knox table is less defective than the other tables, I use it as the basis of my portrayal of Canada's balance of payments position.

[17] Urquhart & Buckley (1965, p. 184/ser. F 357-359). I changed the base year in the table from 1948 to 1929.

[18] Knox (1939, pp. 89-93).

[19] Marcus (1954, p. 19; also 1952, p. 307).

1930s coincided with the shrinking of its foreign trade sector. Under the conditions of a general crisis like the Great Depression, the contraction in foreign trade was naturally more in absolute terms than relative to the national income or gross national product. The lowest level of total exports during the period was reached in 1932, when it was only around 42% of what it had been in 1929. Total exports were still well below their 1929 level at the close of the decade (about 80%). Yet the decline in imports was more dramatic, as the favourable balance of trade during and after 1932 has already suggested. In 1933 and 1939, Canadian imports were approximately 31% (trough) and 58%, respectively, of what they had been in 1929.[20]

The foreign trade sector diminished also in relation to the total economy especially during the early and late 1930s. The declining share of the foreign trade sector in a contracting economy is another indication of the fact that those economic activities directed towards the domestic market got off the crisis relatively easy. Total exports declined from 19% of the gross national product in 1929 to 13% in 1931. Although the export-to-GNP ratio was slightly higher in 1936 and 1937 (above 20 and 19%, respectively) than it was in 1929, it declined again well below the 1929 mark, thereafter.[21] The decline in the import-to-GNP ratio was even steeper. In 1933,

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[20] All percentage changes in trade figures (which are in value terms) are calculated from Urquhart & Buckley (1965, p. 173/ser. F 242-245).

[21] The export-to-national income ratio was naturally higher than the export-to-GNP ratio. Total exports accounted for 25% of the national income in 1929; 18%, in 1931; 28%, in 1936; and 26%, in 1937. I calculated both the export-to-GNP (and -national income) and import-to-GNP (and -national income) ratios from Urquhart & Buckley (1965, p. 130/ser. E 1-12 for GNP and national income, p. 173/ser. F 242-245 for total

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imports accounted for a mere 11% of GNP, a drastic fall from the 1929 ratio (21%).[22] Unlike the case with exports, the import-to-GNP ratios in the 1930s remained consistently and markedly below the one reached in 1929. Yet, by taking into account the overall foreign trade-to-GNP ratios, we can conclude that the Canadian economy went through a cycle of closure-opening-closure in the course of the 1930s. What was crucial to this cycle was the performance of the UK and especially US economies.

To speak of the foreign sector of the Canadian economy at the time is by and large to deal with the relationships it had with the UK and US economies. In 1929, the UK and US markets together accounted for 69% of Canada's exports.[23] During the 1930s, their combined share in Canadian exports fluctuated between 69 (1932) and 78% (1935). The combined share of the UK and US economies in Canadian imports fluctuated less markedly, namely between 77 (1936) and 81% (1939). In 1929, these two economies had accounted for close to 84% of Canada's imports. Taking Canada's trade with its two largest partners as a whole hides the more important changes that took place in its one-on-one trade with them.

The UK share in Canadian exports increased continuously from 25% in 1929

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[21](...continued)
exports and imports). See also Aitken et al. (1959, p. 156/tab. 7); Pentland (1968, p. 53); Saunders (1939, p. 49/tab. 10). However, all these three tables are incomplete in covering the period.

[22] Imports accounted for 28% of the national income in 1929; and 17%, in 1933 and 1938.

[23] Calculated from Urquhart & Buckley (1965, p. 183/ser. F 348-356). I use the table also for all other aspects of Canada's trade with the United Kingdom and the United States. For Canada's current account with these two countries, see pp. 160-1/ser. F 57-71 in the same reference.

to over 41% in 1934, stabilized at 40-41% between 1935 and 1938, and declined to under 35% in 1939.[24] A parallel development occurred in terms of imports from the United Kingdom as well. The UK share in Canadian imports increased from 15% in 1929 to over 24% in 1933 and thereafter declined gradually until 1939, when it reached 15% again. With the United Kingdom, Canada had continuous trade surpluses and a current account which paralleled its overall current account. The increasing role of the United Kingdom (and British Empire in general) in Canada's external trade during the mid-1930s should be considered in relation both to Canadian/British policies (of protectionism against "foreign" countries and Imperial "free trade" after the Ottawa agreements of 1932) and to US isolationism.[25] That the UK (and Imperial) share of Canada's external trade slipped back to its pre-crisis level in the late 1930s attested to the virtual dissolution of the Imperial economic area as a project.[26]

Although the share of the United States in Canadian foreign trade, too, was almost the same in 1939 as it had been in 1929, it followed a different trajectory in the course of the 1930s. In 1929, close to 44% of Canadian exports went to the United States. The US share in Canadian exports dropped to a low of 32% first in 1933 and

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[24] Even if we take 1928 as the base year, during which the United Kingdom accounted for close to 33% of Canada's exports, the increase in the UK share of Canadian exports during the 1930s is still significantly high.

[25] In 1929, British Empire economies as a whole had accounted for about 34% and 20% of Canada's exports and imports, respectively. The combined share of these economies in Canadian exports and imports rose up to 53% (1935) and 32% (1933), respectively (Hancock 1942, p. 307). On the role of the Ottawa agreements in this increase, see Drummond (1974, pp. 286-9).

[26] Hancock (1942, p. 266).

then in 1938 (due to the 1937 recession), between which it was around 34 to 37%. But, in 1939, Canada was again sending about 42% of its exports south of the border. Imports from the United States followed a more noticeable trend. The US share of Canada's imports declined from a high of 69% in 1929 to a low of 54% in 1933 and thereafter gradually increased until 1939 when it was 66%. With its largest trading partner, Canada had uninterrupted trade and current account deficits throughout the period.

To sum up, after tilting a little in the Imperial direction, the Canadian foreign trade sector reverted to its pre-depression pattern, which had been forged primarily along Continental lines. Canada responded to the closure of the UK market with the Hawley-Smoot tariff by raising tariffs. The protectionist shift in the United Kingdom with the Import Duties Act followed by the Ottawa agreements meant the mutual opening of the UK and Canadian markets through preferential tariff rates. After the United States shifted towards free trade with the Cordell-Hull trade program, Canada opened its market to US exports through a reciprocal trade agreement.

Canada took parallel measures to the trade initiatives of both the United Kingdom and United States, with the notable exception of currency devaluation. At the domestic level, however, Canadian economic policy was strikingly similar to that of the United Kingdom and in sharp contrast to that of the United States. In Canada, federal governments proved to be conservative regarding monetary policy and the direction of public spending, as well as the exchange rate of the dollar. While the dollar's pre-crisis parity with the pound sterling and the US dollar was restored as of

1935 through necessary market adjustments to the UK and US devaluations in 1931 and 1933, respectively, the Conservative government did not attempt to devalue the dollar or, in other words, to use exchange rate policy for promoting Canadian exports. As for public spending, what was conservative about it was not so much its amount as its direction. The "unintentional" deficit budgets under Liberals and Conservatives alike were used for financing relief, rather than employment, programs.

Like the Canadian, the Australian and New Zealand economies were trade-dependent and debtor economies.[27] Unlike Canada, however, the Antipodean Dominions relied primarily on the United Kingdom both in commercial and financial terms.[28] Australia devalued its currency early in 1931 and New Zealand followed early in 1933. The major external constraint on Canadian exchange-rate policy after the UK devaluation in 1931 was the fact that the United States as Canada's main source of borrowing, public and private, maintained the gold parity of its currency until 1933. A currency devaluation in Canada between 1931 and 1933 would increase the burden of debt-servicing in US funds.[29] Related to borrowing from the United States

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[27] See Eichengreen (1988, p. 50); Fisher (1934, pp. 753-8) for Australia; Belshaw (1933, pp. 750-60) for New Zealand.

[28] Between 1929 and 1937, the UK market accounted for 38 (1929) to 53% (1935) of Australian exports and 75 (1929) to 90% (1932) of New Zealand exports. During the same period, 38 (1931) to 43% (1937) of Australian imports and 46 (1929) to 51% (1933) of New Zealand imports originated from the United Kingdom (Hancock 1942, p. 306 for Australia, p. 310 for New Zealand).

[29] On this point, see Burton (1938, p. 56); Knox (1939, p. 21); Marcus (1954, pp. 178-9); Noble (1938, p. 272); Plumptre (1934, pp. 161, 166).

was Canada's balance of payments position. Canada experienced a net inflow of capital (i.e., capital imports) from 1929 to 1931, which eased its balance of payments difficulties. In contrast, Australia saw the reversal of capital imports during the same period, which put its balance of payments position under strain. Consequently, currency devaluation amounted to a "failure" for Australia as did the lack of it to a "success" for Canada.[30]

The Australian and New Zealand devaluations can also be related to the characteristics of the UK market which accounted for nearly half of the Australian exports and for well over four-fifths of New Zealand's exports. Unlike Canada, which relied as much on the neighbouring US market as on the UK market for its export sector, the Antipodean Dominions did not have any major market other than that of the United Kingdom for their exports. However accessible it was to them on a preferential basis, the UK market was still no sure win, with the European, particularly Scandinavian, countries putting up stiff competition based on cost advantages. Thus, regardless of their timing, the Australian and New Zealand devaluations had to deal also with this competitive squeeze in the crucial UK market.

Currency devaluation aside, Australia and New Zealand, like Canada, tried to maintain and increase production and employment in industry through protectionism. Building on a lower industrial base, New Zealand actually experienced an increase in

[30] For this, see Knox (1939, pp. 8, 17, 49).

industrial production during the 1930s.[31] In Australia whose industrial base had been comparable with Canada's, tariff protection proved to be highly successful in fighting unemployment.[32] Regardless of its foreign-sector position, the "pastoral" economy of New Zealand provided no choice but to rely upon (tariff or extra-tariff) protectionism for industrialization. In the cases of Canada and, to some extent, Australia, where the agenda was more about industrial policy than about industrialization policy, monetary and fiscal expansion was a possible alternative to, or complement of, tariff protection. If so, the question is why they, Canada in particular, did not try it.

From the point of view of its foreign economic connections, Canada was obviously at a disadvantage for experimenting with demand stimulus. The likelihood of an expansionary monetary and fiscal program to succeed was less in an open debtor economy, such as Canada's, which was dependent on the UK and US economies both for the primary and semi-processed goods it exported and for the manufactured goods it imported, than in an open creditor economy, such as Sweden's, which had a diversified trade pattern both in composition and partnership. In Canada, any massive spending on public works in the secondary industries such as construction would be exposed to "foreign trade leakages" in the form of more capital- and intermediate-

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[31] In New Zealand, the industrial production index (1929=100) rose from 109 in 1932 to 126 in 1937 (Safarian 1959, p. 59).

[32] According to Francis G. Castles (1988, p. 1[illegible]), the rate of unemployment in Australia declined from 28% in 1932 to 8% in 19[illegible] The comment Castles makes on this is worth quoting (1988, p. 137): "[...]the strategy of domestic defence came out of the depression unscathed, for tariff protection seemed to have worked out at a macro-economic level by revivifying manufacturing industry and restoring employment levels, and employers were, at last, won over to the virtues of the arbitration system."

goods imports, deficits in the current account, and a drain on gold and foreign exchange reserves.[33] This does not, however, mean that the only viable option for Canada to recover was to wait for the revival of its exports sector, more correctly, that of its foreign markets. Nor does Canada's foreign economic connections in general close the circle of explanation for its response to the crisis of the 1930s.

In the next section, I establish the financial organization of Dominion capitalism as a second determinant of Canada's (and Australia's) monetary and fiscal orthodoxy. In reaching such a conclusion, I portray domestic-group features (strength, demands, and alignments) both in a depression and historical perspective, and, thus, give a brief account of the "protectionist" policy heritage in Canada and the Antipodean Dominions.

THE INDUSTRIAL AND FINANCIAL BASES OF CANADIAN PROTECTIONISM

When the United Kingdom opted for protectionism in 1932, it broke with the free-trade policy that had been in force since the repeal of the Corn Laws in 1846. In the case of the three Dominions, however, the protectionism of the 1930s was only a heightened event in a continuing process since their coming-of-age during and after the Great Depression of 1873-96. Industrial tariff protection had long been an organizing

[33] For this, see Burton (1934, pp. 144, 156); Marcus (1954, pp. 176, 179, 192, 196); McGinnis (1980, pp. 52-3, 58); Plumptre (1934, pp. 166-7; 1940, p. 375); Safarian (1959, pp. 55, 96).

principle of Dominion economic policies. Yet the industrial relations and social policy components of tariff protection varied from Dominion to Dominion. The main divide in this respect was between Canada, on the one hand, and Australia and New Zealand, on the other. In comparison with Canada (and even most European countries), the Antipodean Dominions had a highly developed system of industrial relations and social protection.

In this section, I approach the Dominions' convergence in protectionism and their divergence in policies organized around protectionism from the vantage point of the composition of producer groups and the organization of the financial system. I begin by looking at sectoral and class alignments in relation to the protectionism of the 1930s. Then, I trace these policy alignments back to the formative period of Dominion capitalism.

Classes, Sectors, and Regions

Taking an overall view of the Canadian economic geography, we can identify a consistent pattern of regional divisions regarding industrial tariff protection. The regions which supported, and benefited from, protectionism were Central, and to some extent Atlantic, Canada. Opposition to protectionism and the demand for free trade came from Western Canada. To be sure, the geography we are dealing with here is not an "innocent" one. What was "central" about Central Canada, for example, was its economic, not physical, location on the map of the country. Each region embodied a

different combination of sectors and classes.

The bulk of the protectionist forces was concentrated in Central Canada. As the general industrial and financial centre of the country, this "region" accounted for more than four-fifths of all manufacturing production in the early 1930s. In the case of Atlantic Canada, while not carrying much weight at the national level, manufacturing industries were responsible for a significant share of the regional economy (over one-third of all production in the region).[34] As a whole, the manufacturing sector, in which the branch plants of US companies dominated, formed the major force behind tariff protection. A second source of support for protection were the mainly home-market oriented farmers of Central, and to a less extent Atlantic, Canada.

Industrial tariff protection, which garnered the support of home-market oriented producer groups in general, was opposed by a free-trade "coalition" of foreign-market oriented producer groups. The most powerful in this anti-protectionist, free-trade alignment were the resource industries (or the extractive sector in its narrower sense) which were spread relatively evenly across Canada. Yet it was the independent, wheat-growing farmers of the Prairies who ignited the cause of industrial free trade at the popular level. The fact that Western wheat farmers, who were totally dependent on overseas markets, had to pay a high tariff rent for agricultural implements made them the most consistent adherents of industrial free trade.[35]

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[34] For an economic profile of Atlantic Canada, see Saunders (1934, pp. 127-33).

[35] As the preserve of agricultural small commodity production, the Prairies, particularly Saskatchewan, formed the most homogeneous region in Canada, both (continued...)

It was this Western-based, free-trade oriented farming class that also provided the bulk of the opposition to federal policies on issues other than foreign trade. Western farmers pushed for monetary reflation and fiscal expansion, in addition to debt relief, cheap credit, lower freight rates, and public marketing agencies. However vocal they were in their demands for such policies, farmers fought an uphill battle against the monetary and fiscal orthodoxy of the federal governments. They were not only historically and institutionally peripheral to federal policy-making processes but also diminished in relative economic stature even before the unprecedented hardships of the Great Depression.

Like the farmers in general, Canadian capitalists had their divisions with regard to federal economic policies. When talking about policy divisions within the capitalist class, however, we should make an issue-related qualification. On the one hand, irrespective of the differences in sector and final-market linkage, big business did not split over federal macroeconomic policies. The financial community was the staunch supporter of federal monetary and fiscal orthodoxy. As for the industrial and resource capitalists, they were not staunch supporters of this orthodoxy but nor did they push for macroeconomic innovation. On the other hand, big business did split over policies relating to foreign trade and exchange (tariff protection and high-dollar policy), the establishment of policy institutions (such as the Bank of Canada), and social

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[35](...continued)
sectorally and in class terms. On the sectoral and class profile of the region, see Britnell (1934; 1939, ch. 4); Fowke (1957, ch. 5).

security/reform (most notably, the introduction of unemployment insurance).[36]

On the crucial issue of tariff protection, the main divide within the business community was between industrial capitalists and resource capitalists. For industrial capital, regardless of the indigenous-foreign (read: US) differences in ownership, the Canadian market constituted the main theatre of operations. Therefore, the strongest support for the heightened tariff protection of the early 1930s came from this section of the capitalist class. Moreover, the Canadian Manufacturers' Association (CMA), representing industrial interests, played an active part both in affecting the tariff increases of 1930-1 and in formulating the imperial-tariff proposals of the Conservative government for the Ottawa Conference of 1932.[37] As for the resource capitalists, the free-trade stance they took had to do with their foreign-market orientation.[38] For the same reason, they pushed for currency devaluation favoured by no other business

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[36] Yet, Alvin Finkel (1979) thinks differently. According to him, big business **en bloc** supported the social and institutional reform legislation embodied in the "Bennett New Deal", and was favourable to the idea of monetary expansion and countercyclical spending during the 1930s. In the first place, Finkel misidentifies the business attitude towards policy developments (both actual and proposed). The conception of a Canadian capitalist class which was unified in the direction of reformism, interventionism, and demand stimulus simply flies in the air. In the second place, his view of the "New Deal" legislation as a matter of all-mighty business manipulation has serious theoretical and methodological problems given the failure of virtually all reform initiatives embodied in the legislation.

[37] For the consultation between the CMA and the Conservative government on tariff increases and imperial preferential treatment, see Clark (1939, ch. 6); Drummond (1972c, p. 91; 1974, pp. 191-4, 201).

[38] This did not, however, prevent some export interests, e.g. British Columbia-based lumberers, from lobbying at the Ottawa Conference for a policy of prohibitive measures against the potential Soviet penetration of the UK market (Drummond 1972b, p. 40).

group.[39]

The powerful financial community opposed currency devaluation as staunchly as it supported deflation and retrenchment. What characterized this community were a small number (to be more specific, ten, as of the 1930s, with three of them owning 75% of the total assets) of Canadian-owned "chartered" banks which had been organized according to the British system of commercial, branch banking.[40] Precisely because of their entrenched position both in the financial sector and in the determination of the federal monetary policy through the judicially-sanctioned Canadian Bankers' Association (CBA), bankers fiercely opposed the establishment of a central bank on every occasion they could find.[41] In contrast, the mainly Western, resource-

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[39] Brecher (1957, pp. 112-4).

[40] Only the smallest (namely, the Barclay's Bank) of the ten "chartered" banks had a UK, if not "foreign", connection. On the institutional framework of the Canadian banking sector, see Brecher (1957, pp. 31-2); Plumptre (1940, pp. 3-42, 123-44); Royal Commission on Banking and Currency (1933, pp. 30-7).

[41] The CBA was much more than a professional organization. After it was established in 1892, the CBA was incorporated by federal legislation in 1900 with a number of functions in the banking field, such as decisions on the eligibility of new banks for "chartered" status, determination of the rate of interest on deposits, and supervision of the chartered banks' note issues, central gold reserves, and clearing houses. During the hearings of the Royal Commission on Banking and Currency-1933, the CBA saw no need for a central bank in Canada on the grounds that the existing institutional framework (the commercial, branch banking system under the supervision of the CBA and the Finance Act of 1914/1923) already provided an adequate "central-banking" mechanism (Brecher 1957, pp. 130-5; Plumptre 1940, pp. 175-9). On an earlier occasion, J. A. McLeod, President of the CBA, had made similar comments in his presidential address to the annual meeting of the CBA in 1932. Boastful of the record of the "chartered" banks during the crisis (no bank failures), McLeod (1933, pp. 162-5) stated that the Finance Act had been performing some of the central-banking functions and that, in a debtor country like Canada where no money market had existed, a central bank would have no effective power. Although the Royal Commis-

(continued...)

based business interests (not to mention farmers), whose strength lay in the foreign sector of the economy, took a positive attitude towards the establishment of the Bank of Canada.[42] The establishment of the Bank, however, did no harm to the vested interests of the commercial-banking community and caused no reversal of the deflationary monetary policy.

One issue that put the commercial-financial interests against industrial-manufacturing interests was that of unemployment insurance. Whereas those business groups based in the sphere of circulation were generally supportive of, or at least silent about, the introduction of some form of contributory unemployment insurance, those based in the sphere of production, especially the interests represented by the CMA, were generally hostile to any form of unemployment insurance.[43] That both the (failed) 1935 and (successful) 1940 insurance schemes targeted mainly the industrial workers for coverage should be seen as a proof of the "correctness" of the two different positions taken by the business community on the issue.

Understandably, organized labour had a more or less unified stance on this particular issue. Regardless of various divisions within the union movement, all union federations supported both the Conservatives' abortive initiative in 1935 and the

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[41](...continued)
sion on Banking and Currency (1933, p. 66) appreciated the "excellence of the Commercial banking institutions", it recommended (with two of the three Canadian commissioners dissenting) for the establishment of a central bank in Canada.

[42] Brecher (1957, pp. 135-8); Finkel (1979, pp. 119-20).

[43] On the relevance of this production-circulation distinction for business attitudes towards the introduction of unemployment insurance, see Cuneo (1979; esp. 1980, pp. 44-6); also Orloff & Parker (1990, pp. 310-4).

Liberals' successful one in 1940 for contributory unemployment insurance.[44] Even on an issue like unemployment insurance, however, organized labour did not play an agenda-setting role; rather, it followed the government's lead without questioning the coverage and funding of the proposed schemes. One notable exception to this was the campaign of the Communist-led Workers' Unity League (WUL) in 1931 for, among other things, a comprehensive and non-contributory unemployment insurance.[45]

On other policy issues, Canadian labour replicated divisions among employers along industrial-extractive lines. Like their capitalist counterparts, industrial workers based in Central Canada had an unambiguous preference for tariff protection. Similarly, the mainly Western-based "resource proletariat" followed its capitalist counterpart by taking an oppositional, i.e. free-trade, stance against industrial protectionism.[46] One critical indication of Canadian workers' accommodation to the trade-centred policy framework was that they did not raise macroeconomic issues to the centre-stage of their agenda. Aside from the "inflation" argument adopted mainly by the workers (and, more vocally, farmers) of the West, where the most notable forces of opposition to federal economic policies had been located, there was no organized and strong demand on the part of the Canadian labour as a whole for any

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[44] Cuneo (1979; 1980).

[45] In 1931, the WUL "presented" to Prime Minister Richard B. Bennett a "Working Class Non-Contributory Unemployment Insurance Bill", according to which the federal government and employers/high income-earners together would contribute to an insurance fund covering farmers and women as well. The WUL had also proposed a seven-hour day, a five-day week, and a minimum wage, as part of the same campaign. For these initiatives of the WUL, see Cuneo (1980, pp. 37-44); Struthers (1983, ch. 2).

[46] The term "resource proletariat" is from Drache (1984).

general program of demand stimulus.

That Canadian labour failed to propose a demand-sided alternative to the supply-sided macroeconomic orthodoxy of the federal governments during the 1930s may be dealt with in terms of the situation of the union movement, as well as in terms of the sharp sectoral/regional divisions in the economy including the unequal levels of proletarianization. For the first half of the decade, four union federations embodied the split within organized labour on four dimensions: organizational orientation (craft unionism versus industrial unionism), "national-international" (read: Canadian-US) affiliation, ethnic (English-French) connection, and ideology.[47] The largest and oldest federation, namely the Trades and Labour Congress (TLC), was an "internationalist" federation of the craft-based, skilled workers' unions which were affiliated with those of the Gomperist, i.e "above politics", AFL. The English-speaking parts of Central and Atlantic Canada constituted the main recruiting base of the unions affiliated with the TLC (and, thus, with the AFL).

The other three federations represented national(-ist) and industry-based unionism in Canada. These were the social- democratic oriented All-Canadian Congress of Labour (ACCL), whose activities ironically were confined to English Canada; the Communist-led WUL, which succeeded particularly among the "resource proletariat" and unemployed of the West; and finally, the confessional Le Confederation des Travailleurs Catholiques du Canada in Quebec. Thus, organized labour

[47] On Canadian labour during the 1930s, see Abella (1973, chs. 1-3); Jamieson (1968, ch. 5); Lipton ([1967] 1973, ch. 15); Pentland (1968, pp. 181-91).

replicated some dimensions of the capitalist split, on the one hand; and created splits of its own, on the other. Whereas the AFL-administered, "international" unionism of the TLC paralleled the US-owned, "branch-plant" character of Central-Canadian (especially Ontarian) industries; the radicalism of the national unions paralleled the centrifugal tendencies of those resource industries based mainly in Western Canada. Organized labour was further split along lines of ideology and, more importantly, ethnicity --the two issues on which the capitalist class had not, of course, bothered to split.

Divided as it was, organized labour became increasingly militant in the course of the 1930s. Labour militancy measured by strike activity (more specifically, the number of strikes and the number of workers involved) was significantly higher during 1931-40 than during 1921-30.[48] Also, headway was made for national unionism against "labour imperialism" of the AFL in the first half of the decade.[49] As of 1935,

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[48] The total duration (in person days) of strikes in the 1931-40 period was, however, much shorter than that of strikes in the 1921-30 period. For strike statistics, see Cruikshank & Kealey (1987, p. 86/tab. 1); Urquhart & Buckley (1965, p. 107/ser. D 426-433). During the 1930s, there were two instances of labour militancy that stood out: the "On-to-Ottawa Trek" in 1935 and the Oshawa Strike in 1937. The "Trek" was started in British Columbia and organized by the Relief Camps Workers' Union, a WUL affiliate, to protest the conditions of the unemployed ("transients") who were settled in "relief camps" under the administration of the Department of National Defence. It was suppressed bloodily by the police in Regina, Saskatchewan. In contrast, the Strike in Oshawa, Ontario, which involved the workers of the US-owned automobile plants, was a success for industrial, if not national (as we will see shortly), unionism. According to Irving M. Abella (1974), the Oshawa Strike had been the greatest event on the part of Canadian labour since the Winnipeg General Strike of 1919.

[49] I stole the term "labour imperialism" from Lipton ([1967] 1973, pp. 135, 139).

the three national(-ist) federations nearly equalled in membership the "internationalist" TLC. This, in fact, amounted to the highest rate of national union membership in Canada at least for the 1911-58 period.[50] Ironically, the ensuing decline of national, if not industrial, unionism in Canada coincided with the rise of industrial unionism in the United States under the umbrella of the CIO, which had been founded in 1935 as an alternative to the craft-based AFL. The CIO's industrial unionism strengthened the appeal of "internationalism" among those national-industrial unions based in English Canada in particular.[51]

To what extent do such particularities of the Canadian union movement account for the virtual absence of the labour input into federal policy processes, not to mention policy outcomes?

In order to probe this question, we need to refer to the Australian and New

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[50] Aitken et al. (1959, p. 168/tab. 20). See also Urquhart & Buckley (1965, p. 105/ser. D 412-413). To Charles Lipton ([1967] 1973, p. 256), the 1935 rate of national union membership was the highest one in Canadian history.

[51] Another damaging development for national unionism in Canada was that, in 1935, the WUL, which had been founded in 1930 under the leadership of the Communist Party of Canada, dissolved itself and joined the AFL-guided TLC, in accordance with the shift in policy of the Third International to "Popular Front" phase. Later on, the ex-WUL elements would organize the CIO-affiliated unions. After the formal separation of the CIO from the AFL in 1938, the latter put pressure on the TLC to expel the CIO affiliates. Consequently, the TLC expelled all of the CIO affiliates in 1939. Later in 1940, the ACCL and the CIO affiliates merged to form the Canadian Congress of Labour (CCL) as an industry-based federation of the national and "international" unions --the final peace within the English Canadian union movement would be made in 1956, when the TLC and the CCL joined their forces to form the Canadian Labour Congress, following the AFL-CIO reunification in 1955.

Zealand cases. One critical conclusion that can be drawn from the Canadian-Antipodean comparison is that the difference in working-class composition and strength did not lead to any substantial difference in policy at the macroeconomic level. As we saw, both Australia and New Zealand, like Canada, were monetarily and fiscally conservative in their responses to the Great Depression. We also know, however, that the Australian and New Zealand union (and, more broadly, labour) movements were much stronger, more unified, and more "national" than their Canadian counterpart. For example, in 1937, the proportion of the unionized labour force to general population was about four times larger in the Antipodes than in Canada.[52] Moreover, regarding the rate of unionization, Australia was well ahead even of the three Scandinavian countries in 1930 and was surpassed only by New Zealand and Sweden in 1939-40.[53]

The variation in working-class strength across the Canadian and Antipodean Dominions did, however, make a difference in the social and industrial uses of tariff protection. In Canada, the industrial tariff was implemented for the purpose of protecting the manufacturing industries and, indirectly, their workers. In Australia and especially in New Zealand under the Labour government, it was implemented not only

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[52] To be more specific, one Canadian in every twenty-eight was a union member, as compared with one in every seven in Australia and one in every eight in New Zealand (Brady 1941, p. 217).

[53] In 1930, the rate of unionization was 38% in Australia; 21% in Denmark; 20% in Sweden; 17% in New Zealand, 12% in Norway, and 8% in Canada. In 1939-40, the rates were 35%, 28%, 36%, 39%, 26%, and 8%, respectively (Stephens 1979, p. 115/tab. 4.8).

for this purpose but also to support a broader pro-labour system of social and industrial regulation involving compulsory arbitration, wage-fixing, and numerous welfare services.[54] The industrial and social protectionism of the Antipodes had a broader support base. While Canadian labour (not to mention, farmers and business) was split over industrial-tariff policy, labour in each of the other two Dominions unanimously supported the "tariff wall". In addition, business and agrarian interests, too, were fully supportive of industrial tariff protection especially in Australia. The preexistence of a large pastoral proletariat in the Australian rural structure, which was in this respect a contrasting image of Canada's family farm-centred rural structure, contributed greatly to the strength of the labour input to cross-class and cross-sectoral alliance for protectionism.[55]

If the variation in social content of protectionism across the Canadian and Antipodean Dominions had to do partly with the varying strength and cohesiveness of their working classes, the macroeconomic orthodoxy that had defined all three Dominions (especially Canada and Australia) had to do largely with the similarity of their financial groups. As in the Canadian case, the Australian and New Zealand financial sectors were dominated by a small number of commercial banks organized

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[54] On Canadian-Antipodean contrasts in social and industrial regulation, see Brady (1939). On Australian-New Zealand contrasts during the 1930s, see Castles (1985, pp. 21-9).

[55] See Brady (1939, p. 304); Castles (1988, pp. 110-2) on the predominantly capitalist character of the Australian rural sector.

along the British branch-banking line.[56] While forming the centres of monetary and fiscal orthodoxy, these close-knit commercial-banking communities happened to be the leading "nationalist" sections of the Dominion capitalist classes. When a Dominion government took initiatives to introduce or reform the central-banking mechanism with the encouragement of the Bank of England, for example, the local commercial banks ardently defended the status quo, in which they had a vested interest, against "foreign" encroachments.[57]

We draw three interrelated conclusions from the Canadian-Antipodean comparison regarding the impact that the sectoral and class alignments had on Dominion economic policies during the 1930s. First, the strength and articulation of the urban and rural producing classes was not a relevant factor at the macroeconomic-policy level. Despite very significant differences between Canada on the one hand and Australia and New Zealand on the other, all three followed similar monetary and fiscal policies. Secondly, the policies on which these differences had their impact were those of industrial regulation and social, if not industrial, protection. A third conclusion

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[56] In the 1930s, there were nine commercial banks in Australia; and six, in New Zealand. While all three Dominions had a British-type financial system, the less developed New Zealand differed from the other two in that the state occupied an important place in its financial sector. On the Antipodean financial systems, see Plumptre (1940, ch. 2 for Australia, ch. 3 for New Zealand).

[57] Plumptre (1938, p. 196; 1940, pp. 176-8). Whereas the commercial banks in Canada and New Zealand fiercely opposed the establishment of a central bank under any circumstances, those in Australia did not have to do so, because the Commonwealth Bank of Australia, whose privately-owned semi-central bank status in the early 1930s had been achieved in three stages (1911, 1920, and 1924), were already on amicable terms with them.

concerns the role of the common "capitalist-class" features in the convergence of the three Dominions in two crucial terms: namely, industrial protectionism, and monetary and fiscal conservatism. Industrial protectionism had to do in large part with the domestic-market orientation of the Dominions' manufacturing industries; and macroeconomic conservatism, with the British-type organization of their financial sectors.

Especially in Canada, tariff protection and deflation-retrenchment were related phenomena. The radical gap between financiers and industrialists was one major factor accounting for the federal protectionist-procyclical policy mix during the 1930s. The historical predominance of commercial, branch-banking system in Canada bred an indifferent attitude on the part of the financial community towards the concerns of the industrial community. What the financial community was concerned with was the foreign and domestic position of the dollar. The domestic-market oriented manufacturing sector, dominated by the branch plants whose parent companies and financial linkages were in the United States, had no incentive to push for currency devaluation. The interest of this sector was in tariff protection which it easily achieved.

What was critical to Canada's fusion of tariff protection and procyclical orthodoxy during the 1930s was the lack of articulation between the industrial and financial sectors, not their individual strength. And the commercial, branch-banking system played a crucial role both in this disarticulation and in the home-market orientation and branch-plant character of the industrial sector. In order to reveal this point, however, we need to take a longer view of the Canadian economic policy in its

dual metropolitan context.

The Protectionist Legacy: Canadian Banks, US Industries

When responding to the Great Depression of the 1930s, Canada did not break with the patterns of economic policy which it established during the Great Depression of 1873-96. Neither did a radical change occur in domestic-group alignments regarding these policy patterns between the two periods. In the early 1930s, new life was breathed into the protectionism of the National Policy launched in 1879 by another Conservative government.[58]

The impetus for launching the National Policy of 1879 and, indeed, Canadian Confederation (1867) itself stemmed from the same sources. First, with the age of free trade dawning upon it, the United Kingdom removed the last relics of mercantilism between 1846 and 1849 by repealing the Corn Laws and the Navigation Laws, which had been the main preferential treatment mechanisms for the Province of Canada.[59] Deprived of the preferential access to the market of the parent country, Canada and the

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[58] According to Canadian economic historiography, the transfer of the management of natural resources in the Prairies from the federal to provincial governments in 1930 symbolized the end of the National Policy in the sense of the completion of Western settlement for the wheat economy. See Craven & Traves (1979, p. 36); Easterbrook & Aitken (1956, p. 481); Fowke (1952, pp. 277-86; 1957, pp. 84, 281-97); Phillips & Watson (1984, p. 21); Royal Commission on Dominion-Provincial Relations (1940, book 1, pp. 132-5, 182-6); Smiley (1975, pp. 43-5).

[59] According to Orville J. McDiarmid (1946, p. 57), the repeal of the Corn Laws in 1846 by the United Kingdom was the "severest blow in the commercial history of the St. Lawrence colony [that is, Canada]".

other (namely, Maritime) colonies in British North America sought to establish closer economic ties with the United States. This search resulted in the signing of the first North American "free trade" agreement (i.e., the Reciprocity Treaty) in 1854 between the United States, and Canada and the Maritime colonies. A second blow to the colonial economies of the British North America was dealt in 1866, when the United States abrogated the Reciprocity Treaty after emerging from the Civil War with the victory of the protectionist, industrial North against the free-trade oriented, agricultural South. Third, the St. Lawrence River route carrying the transatlantic-oriented, commercial economy of Canada had lost its previous importance with the ascendancy of the US midwest-New York trade route. Finally, we should mention the westward expansion of the United States for settlement into British territory. These developments propelled Canada to launch a project of "defensive expansionism", with the Confederation and the National Policy being its political and economic expressions, respectively.[60]

Nevertheless, it is important to note the lag in timing of the political and economic aspects of "defensive expansionism". Short as it was, the lag was not a matter of the young Dominion's taking time to ready the political infrastructure of a preconceived economic policy. The first Dominion governments had pinned their hopes on resuming the Reciprocity Treaty with the United States. While these hopes were

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[60] The term "defensive expansionism" belongs to Hugh G. J. Aitken (1959b). On the economic and political impulses for the Canadian Confederation and National Policy, see Aitken (1959b, pp. 94-9); Burton (1938, pp. 45-54); Easterbrook & Aitken (1956, chs. 15-6); Fowke (1946, chs. 5, 6; 1956, pp. 476-7); McDiarmid (1946, ch. 4).

dashed during the first half of the 1870s, there was no departure, thereafter, from the revenue-oriented tariff system.[61] It was more than a coincidence that the Conservatives explicitly opted for the National Policy in the midst of the protracted Great Depression of 1873-96. Not until after the world economic crisis set in did it become possible to institute the protective tariffs and launch the transcontinental railway-building program (and, thus, speed up the process of Western settlement). This said, the pre-Confederation antecedents of these policies should be acknowledged. Notable in this respect were the "incidental protectionism" of the Cayley-Galt tariffs of 1858-9, and the construction of canals and, more experimentally, railways along the St. Lawrence River system, i.e. the east-west axis, in Central Canada.[62]

With its protective tariffs, transcontinental railways, and Prairie settler-farms, the National Policy amounted to a Dominion edition of the earlier US experience in developing east-west economic linkages. Yet the United States set not only the example, but also the obstacle, for Canada to follow. The National Policy aimed to establish east-west linkages to offset the north-south linkages. When it is isolated from this peculiarity, the Canadian experience can easily be seen as a kind of general

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[61] The US-UK Washington Treaty in 1871 made it unfavourable for Canada to have access to the US market. For Canada, the final hopes for a freer trade with the United States were dashed in 1874, when the negotiations for renewing the Reciprocity Treaty between the two countries collapsed. On this, and the fiscal orientation of the Canadian tariff system between 1867 and 1878, see Cudmore (1930, pp. 644-9); McDiarmid (1946, pp. 153-4); Pomfret (1981, p. 78).

[62] For the pre-Confederation tariff system, and canal- and railway-building programs, see Aitken (1959b, pp. 89-93, 102); Easterbrook & Aitken (1956, ch. 14, and pp. 370-6); McDiarmid (1946, p. 74); Pomfret (1981, pp. 71-3, 99-102).

development project bridging the mercantilism of the early-comers and the import-substitution strategy of the 20th-century hopefuls.[63] That it was closer to the latter than it was to the former had to do with the defensiveness of its conception and application.

Industrialization is one of the areas in which the defensive character of the National Policy was displayed. Tariff protection was the institutional expression of an industrialization strategy based on import substitution.[64] The Tariff Act of 1879 replaced many of the existing **ad valorem** rates with specific duties for the purpose of protecting and/or encouraging the manufacturing industries, such as iron and steel, textiles, and agricultural implements. Another incentive introduced by the government for these industries, iron and steel in particular, was the payment of "bounties" on local production of intermediate goods (and raw materials) they processed. After raising this policy of protective tariffs and "bounties" to a climax in the 1880s, the Conservative

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[63] R. Tom Naylor (1975a, ch. 1) defines the National Policy as a "colonial equivalent" of 17th- and 18th-century mercantilism.

[64] Here, I rely on Glen Williams' work (1979; 1983, esp. chs. 2, 3). Comparing the import-substituting industrialization in Canada during the 1879-1913 period to that in Third World countries during the post-Second World War period, Williams identifies three main features of the Canadian experience: (a) home-market orientation with a strong emphasis on consumer-goods production; (b) technological dependence; and (b) the British connection, which would broaden the "home market" for US branch plants following the extension to Canada of the preferential tariffs by the United Kingdom and a number of Dominions early in the 20th century. To Williams (1983, p. 23), in addition to the National Policy tariffs, the Patent Act of 1872 was one principal cause of technological dependence and the surge of US branch plants in Canada. For a similar assessment of the role of the patent legislation and imperial tariff preferences in the decision of US manufacturing companies to open branch plants in Canada, see Pomfret (1981, pp. 89-90).

government made some adjustments to it in the early 1890s by lowering specific duties on farm machinery and by shifting the emphasis from specific duties to **ad valorem** rates, in line with the moderate Wilson Tariff adopted in the United States.[65]

Under the Liberals, the traditional party of free trade and continentalism, there were no radical departures from the National Policy pattern, and tariff protection remained the main instrument of industrial policy. In fact, the Liberal government shaped the institutional framework of Canadian tariff-making by introducing two new tariff categories, that is, the Empire preferential schedule in 1898 and the intermediate (treaty) schedule in 1907. It was, however, voted out of office in 1911, when it sought a popular mandate to implement the Reciprocity Treaty which it signed with the US administration in 1910.[66] During the economic upturn of the 1920s, with the Liberals at the helm again, significant tariff reductions were made for a number of manufactured goods, farm machinery in particular.

As part of the National Policy, transcontinental railway-building formed a crucial link between industrialization-through-protection in Central Canada, and agricultural settlement and expansion in the West. In 1880, the federal government

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[65] On Canadian tariff/commercial policy between 1879 and 1929, see Cudmore (1930, pp. 649-56); Mackintosh ([1939] 1964, pp. 25-35, 63-8, 99-101); McDiarmid (1946, chs. 7, 9, 11); Perry (1955, chs. 4, 6, and pp. 222-6).

[66] The defeat of the proposed Reciprocity Treaty in the election of 1911 did not have any adverse effects on Canada's trade with the United States. On the contrary, there was an increase in the US share of Canada's foreign trade between 1910 and 1913. During this period, the United States increased its share of Canadian exports from 36 to 39%, and its share of Canadian imports from 56 to 65% (Naylor 1975b, p. 208/tab. 15.1).

approved a private syndicate (CPR, Canadian Pacific Railway) to build a line from Central to Western Canada. In the agreement, the CPR got a generous package of assistance from the government, including land grants, cash subsidies, tax (and customs duties) exemptions, and monopoly status for a certain period of time.[67] Approximately twenty years after the completion of the CPR line in 1885, the Liberal government picked up the work of what many consider "railway extravagance" by approving the construction of two more private transcontinental lines with federal (and provincial) assistance.[68]

Although Western settlement predated protective tariffs and transcontinental railway-building, it was only after the coming of the railway and the passing of the Great Depression of 1873-96 that the West saw the surge of immigration and that wheat became the number one Canadian staple.[69] In 1870, the federal government started the process of "province-building" in the Prairies. This was followed by a settlement program (Dominion Lands Act of 1872), which had been modelled on the US Homestead Act of 1862. The Canadian pattern of settlement differed, however,

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[67] This policy of private railway-building with public resources was not without its antecedents. For example, the Province of Canada had extended governmental guarantees to private railway-builders through the Guarantee Act of 1849 (Aitken 1959b, p. 101).

[68] The new lines would, however, face bankruptcy shortly after they were opened. The federal government was thus forced to take them over during 1917-20 and establish a state company (CNR, Canadian National Railway) in 1923 to operate them. For the Dominion railway policy, see Easterbrook & Aitken (1956, ch. 18); Laxer (1989, pp. 182-97); Mackintosh **et al.** (1935, ch. 3); Pomfret (1981, pp. 102-11).

[69] See Easterbrook & Aitken (1956, ch. 20); Fowke (1946, ch. 7); Mackintosh **et al.** (1935, ch. 1); Pomfret (1981, pp. 111-9).

from its US counterpart in one important respect: railway builders had acquired a big chunk of land in the Prairies through the land-grants system before most of the settlers to be homesteaded actually arrived. Farmers in the Canadian Prairies would spend much of their political energies trying to gain the ground that their US counterparts had from the outset. Once they emerged as a class of their own, they began to campaign for, among other things, lower freight rates and against the monopoly position of the CPR in grain storage and transportation. This campaign did not yield fruit until after wheat came to dominate the exporting sector of the Canadian economy at the turn of the century.[70]

The National Policy was an innovation in terms of agricultural settlement, railway building, and industrial tariff protection. One crucial sector in which it was not innovative was that of finance. In fact, the financial sector maintained its institutional features in the transition from the Province to Dominion of Canada and thus provided the strongest link of continuity between the two. This continuity would prove crucial to the type of industrialization under the National Policy. The Dominion took over from the Province of Canada a commercial, branch-banking system dominated by the "chartered" banks, which had been responsible for operating the gold standard since

[70] The importance of wheat was not limited to the foreign sector of the economy. Harold A. Innis (1933, p. 99) argued that the "economic and political structure of Canada have been built up in relation to the production and export of wheat". According to him, from 1900 onwards, Western wheat economy began to determine the pace of the Canadian economy in its entirety (1932, p. 3).

mid-century.[71] The Bank Act of 1871 entrenched this system with the "chartered" banks having their note-issuing powers. Thus, the "chartered" banks, the Bank of Montreal in particular, were authorized from the start to perform some of the central-banking functions for the Dominion government.

For us, highlighting the consequences of the National Policy means revisiting the 1930s in two senses. First, what resulted from this development experience formed the objective economic background against which governments would work during the second Great Depression. At the regional level, Central Canada further strengthened its relative economic position by emerging as the industrial centre of the country under tariff protection. While enjoying tariff protection for its existing industries, the Atlantic region entered the 20th century with a diminished industrial stature within the Confederation. As a creation of the National Policy itself, the Prairies (the West in general) had no manufacturing base strong enough to benefit from the protective tariffs, and became the chief resource-producing and -exporting region of the country.[72]

At the sectoral level, the manufacturing industries which the protective tariffs

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[71] It must also be pointed out that the Province of Canada had a failed experiment with "private", unit banking. The Free Banking Act of 1850, which had been modelled on US unit-banking system, proved to be ineffective in bringing about an industrial alternative to the commercialism of the "chartered" banks. On Canadian banking before and after the Confederation, see Bordo & Redish (1987, pp. 406-8); Easterbrook & Aitken (1956, ch. 19); Glazebrook (1930); Goodwin (1961, ch. 3); Naylor (1975a, esp. chs. 3-5); Pomfret (1981, ch. 8).

[72] On the regional consequences of the National Policy, see Mackintosh ({1939} 1964, pp. 140-6).

helped to develop were, to a large extent, made up of the branch plants of US companies which served the Canadian domestic market.[73] In contrast, banks (the financial sector in general) and railways emerged from the outset as the preserve of Canadian capital, and remained so.[74] Given the predominance of a financial system which had been institutionally distant from the industrial sector, US direct investment grew into the main form of industrial financing under the National Policy. The Dominion governments, in the meantime, borrowed heavily from abroad, from the United Kingdom in particular, and used the tariff mechanism for collecting revenue (as well as for encouraging the industries) in order to finance the costly railway-building program.

A second aspect of the continuity between the two Great Depressions concerns the alignment of regional, sectoral, and class interests in relation to economic policy. The policy alignments of the 1930s were a new rendition of those of the National Policy period. The National Policy alignment was a loose Central-Canadian "coalition" composed of bankers, merchants, railway builders, and manufacturers, with workers and farmers playing, though ambivalently, a supporting role. As was the case with the 1930s, Western farmers (later to be joined by the capitalists and workers of the

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[73] One notable exception to the branch-plant character and domestic-market orientation of the Canadian industries was the agricultural implements industry in which Canadian-owned Massey-Harris group had established a strong export connection (McDiarmid 1946, ch. 10; Pomfret 1981, pp. 85-94, and ch. 6).

[74] Laxer (1989, pp. 147-50, 168-73, 210-1). It is worth noting that, in addition to 4,659 branches at home, Canadian "chartered" banks had also 200 branches abroad (to be specific, in the United Kingdom, the United States, Latin America, and the West Indies), as of 1921 (Glazebrook 1930, p. 638).

extractive sector) constituted the principal source of opposition to the industrial protectionism, transportation monopoly, and financial domination of Central Canada.

The National Policy innovation presupposed a realignment of major interests. This took place roughly between the abrogation of the Reciprocity Treaty by the United States in 1866 and the onset of the world economic crisis in the mid-1870s. Central-Canadian merchants, who had become increasingly continentalist and even annexationist after the repeal of the Corn Laws in 1846, were orphaned by the abrogation of the Reciprocity Treaty.[75] This situation, combined with the weakening of the St. Lawrence mercantile economy, forced them to align with other Central-Canadian interests, namely financial and industrial groups, around the National Policy of Western expansion, transcontinental railway-building, and industrial protection.[76] As for the fledgling manufacturing industries, having promoted the cause of protectionism consistently since the mid-century, they seized an important opportunity in the economic crisis-cum-lower tariffs of the 1870s to make their case more convincing.[77]

Well after they got the tariffs and "bounties" in 1879, the manufacturing industries of Central Canada and the Maritimes (especially iron and steel, farm

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[75] For the free-trade position of Central-Canadian merchants during the 1846-66 period, see Fowke (1946, pp. 253-6); Goodwin (1961, pp. 59-68).

[76] Fowke (1946, pp. 261, 268); Naylor (1975b, ch. 9).

[77] In order to advance their pro-tariff, anti-reciprocity position, the manufacturers of Central Canada began to organize as early as 1856. The CMA, established in 1887 (to be reorganized in 1900), was the outgrowth of their long struggle for protectionism. On this, see Clark (1939, ch. 1); Fowke (1946, pp. 256-9); Goodwin (1961, pp. 43-59).

machinery, and textiles) continued to rely on the paternalism of the state.[78] Having organized under the umbrella of the CMA, they kept on pressing for more protection and fiercely opposed any political move towards lower tariffs. The defeat of the proposed Reciprocity Treaty in 1911, for example, was largely the result of the "tariff education" campaign initiated by the CMA and other protectionist groups, notably railway interests.[79] This alignment does not suggest the absence of disputes within the CMA (over tariff rates for specific items) or between the CMA and the major railway company (CPR) over the freight rates.[80]

Canadian labour was, in a sense, a creation of the National Policy. After the initial period of industrialization, which ended before the First World War, labour passed the stage of infancy in strength as well as in size. Yet it remained "infant" in terms of policy effectiveness. For example, it was on the sidelines in 1918, when the Employment Offices Co-ordination Act was legislated to establish a national network of labour exchanges (Employment Service of Canada), just as it was in 1907, when the Industrial Disputes Investigation Act was legislated to regulate industrial relations. The

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[78] The iron and steel, farm machinery, and textiles industries had been the principal beneficiaries of the tariffs and "bounties" for the 1880s and 1890s (McDiarmid 1946, ch. 8).

[79] Clark (1939, ch. 2). Ironically, the US subsidiaries in Canada proved to be the fiercest opponents of the proposed Reciprocity Treaty with the United States (Pomfret 1981, p. 90).

[80] For tariff disputes within the CMA, and freight disputes between the CMA and the CPR, see (Clark 1939, pp. 25, 48-53). When Paul Craven and Tom Traves (1979, p. 16) claim that the "period from the 1870s to the Great Depression witnessed the construction of an industrialists' hegemony in Canada", they overlook not only these intra- and inter-sectoral disputes, but also the role of the financial-commercial interests in the formation and implementation of the National Policy.

impulse for these two initiatives, which constituted the most important legislation on labour before 1935, came from postwar demobilization and an "enlightened" Liberal leadership, respectively.[81]

At the turn of the century, Canadian labour was already divided along sectoral lines over tariff issue while united in opposition to immigration. The TLC, representing the workers of Central Canada, Ontario in particular, supported tariff protection on the whole for job maintenance and creation purposes.[82] As in the 1930s, the protectionism of Central-Canadian labour in the preceding three decades was independent of those multitudinous cleavages that marred the union movement.[83] Similarly, the anti-tariff (anti-National Policy at large) position of Western labour in both periods at issue

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[81] Following the passage of the Industrial Disputes Investigation Act (to be amended in 1925), the Liberal government also established the Department of Labour in 1909 (Lipton [1967] 1973, ch. 6; Pentland 1968, pp. 144-66).

The Employment Service of Canada (ESC), established by the Conservative-led "Union" government, was an innovative labour-exchange experiment involving the federal and provincial levels of government. After implementing a successful program of job placement in its first year of operation, the ESC effectively vanished in the early 1920s, when the political power of Western farmers surged to an all-time high (Struthers 1983, ch. 1).

[82] Craven & Traves (1979, pp. 22, 27).

[83] The "civil war" of Canadian (North American in general) union movement dates back to 1902, when "Gomperism" took over the AFL. The same year, the AFL exported its new principles and practices to Canada via the TLC, which, until then, had been a federation of the national/industrial and international/craft-based unions since its establishment in 1883. After purging the national/industrial unions, as it was demanded by the AFL, the TLC became a purely "internationalist" federation of the craft-based unions. Those unions expelled from the TLC would eventually form two separate national/industrial federations in the 1920s: Le Confederation des Travailleurs Catholiques du Canada (1921) based in Quebec and the ACCL (1927) based in English Canada (mainly Ontario). See Drache (1984, esp. pp. 56-61, 65-70); Lipton ([1967] 1973, chs. 3, 7); Pentland (1968, pp. 130-44; 1979, pp. 71-4), Robin (1968, ch. 5) for divisions within the Central-Canadian labour movement.

did not result from its union and political radicalism. That Central- and Western-Canadian workers were on the opposite sides of the tariff debate derived from the sectoral conflict in which their employers were engaged --a conflict between the manufacturing industries, which produced for a protected domestic market, and the resource/extractive industries, which produced for, and were exposed to, international markets.[84] It was this exposed character of the extractive sector in which Western workers were embedded that accounted both for their opposition to the tariff protection of the manufacturing sector and for their radicalism.[85]

Likewise, the agrarian response to National Policy tariffs was conditioned by regional economic differences. Central-Canadian farmers viewed industrial protection in terms of its potential for creating a domestic market for agricultural products, and initially supported it.[86] What counted, however, for the economic and political make-up of Canada in the decades to come was the response of Western farmers. Born as a direct consequence of the National Policy, the Prairie farming class grew into the major oppositional force in relation to federal economic policies for half a century from the 1890s to the 1930s. The tariff protection and the CPR monopoly had raised

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[84] I draw on Daniel Drache (1984, pp. 55-6, 62-5) and especially H. Clare Pentland (1979, pp. 60-7) in making sense of the variation in policy and politics between Central (English)- and Western-Canadian labour movements from a sector-based perspective.

[85] On the rise and demise of labour militancy in Western Canada during the immediate postwar period (most notably, the Winnipeg General Strike and the One Big Union in 1919), see Abella (1975, p. 15); Lipton ([1967] 1973, ch. 12); Pentland (1968, pp. 170-81; 1979, 74-6); Robin (1968, chs. 11-2).

[86] Fowke (1946, p. 260).

for this class of farmers the cost of production and living in the form of expensive agricultural machinery and consumer goods, and high rates in freight and grain storage.[87] Therefore, they put up an incessant campaign for lower tariffs and railway rates from the 1890s on.

Western farmers won their first policy "victory" in 1894, when tariffs on agricultural machinery were reduced to the 1880 levels.[88] Yet it was with the proposed Reciprocity Treaty in 1910 that they made their strongest, though unsuccessful, case for free trade. In the 1911 "Reciprocity" election, the Canadian Council of Agriculture, with a heavy representation from the West, worked with the same fervour for the Treaty as the CMA did against it.[89] Following the defeat of 1911, farmers and the Liberals had to wait a full decade to reinstate the free-trade issue on the policy agenda. At the height of their political strength in the early 1920s, Western wheat farmers were able to influence the Liberal economic, notably tariff, policies.[90]

To conclude, when responding to the Great Depression of the 1930s, Canada did not deviate from the National Policy patterns and alignments fashioned during the

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[87] For this, see Fowke (1957, p. 68); McDiarmid (1946, pp. 198, 250).

[88] McDiarmid (1946, p. 177); Pomfret (1981, p. 86).

[89] The Canadian Council of Agriculture was formed in 1909, i.e. one year before the signing of the Reciprocity Treaty (Craven & Traves 1979, p. 26; Fowke 1946, pp. 265-8).

[90] Also in the early 1920s, Western wheat farmers instituted an alternative, cooperative system in grain marketing. The Wheat Pools, which were launched in the Prairies in 1923-4, served until 1930-1 as a cooperative alternative of the CPR in grain storage and of the Winnipeg Grain Exchange in grain trade. For these developments, see Fowke (1946, pp. 241-9; 1957, chs. 11-3); Mackintosh et al. (1935, ch. 4).

Great Depression of 1873-96. Yet the National Policy itself was an innovation which rested on a realignment of the commercial, financial, industrial, and agrarian interests based in Central Canada. In turn, it had important consequences for domestic-group composition. With the commercial, branch-banking system remaining intact in transition from the Province to Dominion of Canada, US direct investment became the main form of industrial financing under the tariff protection of the National Policy. The financial-industrial divergence (in sectoral, "national", and market-orientation terms) was the most important legacy of the National Policy. This divergence aside, the Canadian "chartered" banks and the branch plants of US companies were equally supportive of the National Policy. A second legacy of the National Policy was the emergence of a peripheral/oppositional alignment involving the agrarian and extractive interests based primarily in Western Canada. Labour simply replicated the pro- and anti-National Policy platforms of the manufacturing and resource industries, respectively.

In the case of Australia, the historical continuity in economic policies and alignments was even more unambiguous. The "politics of domestic defence" fashioned in the late 19th and early 20th centuries was largely maintained during the 1930s.[91] As for New Zealand, it improved what Australia managed to maintain. The experiences of the Antipodean Dominions in the span of time stretching from the 1890s to the 1920s produced two main outcomes which the National Policy of Canada did not: (a)

[91] Castles (1988, pp. 91-104).

an extensive network of social protection; and (b) a high level of state ownership (largely in mass transportation and utilities), which amounted to "state socialism" or "Dominion collectivism".[92]

The economic-policy patterns which we observed in Australia and New Zealand during the 1930s were fashioned in the 1890s and 1900s.[93] In Australia, the policy mix of industrial and social protection was supported by a coalition of the urban/manufacturing and pastoral/exporting interests during the first decade following the formation of the Commonwealth in 1901. Although this coalition was formally a "bourgeois" one until 1910, when the Labor Party formed its first majority government, it included from the start both urban and pastoral labour in substantive terms. For instance, before the tariff protection of manufacturing industries came the social protection of labour, which was expressed first in the "White Australia Policy" of 1901 and then in the Commonwealth Court of Conciliation and Arbitration of 1904. Thus, when the "new protection" of 1906 introduced the tariff guarantee for the manufacturers, both sides of the sector obtained a state "defence against the unfettered implications of the self-regulating market mechanism".[94]

In 1909, Australia extended the principle of social protection to the non-market population. That is to say, all the innovative elements of the federal economic and

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[92] Both terms are from Brady (1939, p. 305; [1947] 1958, pp. 460-1).

[93] For the Antipodean historical policy experiences, I rely primarily on the work of Alexander Brady (1939, pp. 307-9; 1941, pp. 219-24 for Australia, pp. 225-32 for New Zealand; [1947] 1958, chs. 6, 10 for Australia, chs. 11, 13 for New Zealand). See also Castles (1985, pp. 12-21).

[94] Castles (1988, p. 98).

social policy were already in place before the first majority Labor government was formed. The Labor governments of the 1910s and subsequent years simply became the guardians of these policies. Nevertheless, it was also in those years that the foundations of a central-banking mechanism were laid and that the level of state ownership rose to a new high. As for industrialization, the Massy Green Tariff of 1920 and the Tariff Board of 1921, both of which were introduced by "bourgeois" governments, constituted a great leap forward in import substitution. From a Canadian perspective, the Australian experience in import substitution relied on a broader support base both in class and sectoral terms. The reason for this was twofold: whereas industrial and pastoral labour got stricter control of immigration, and a unique system of compulsory arbitration and wage-fixing, the primary producers got compensation (including lower freight rates) for having to buy their machinery and consumption articles in a protected market.

The consolidation of the economic alignments and policy patterns occurred even earlier in New Zealand. During the first decade of its long governance from 1890 to 1911, the Liberal Party transformed the rural class structure and established the parameters of public policy by forging an alliance between small farmers and labour. The land reform of the 1890s created a large class of small holders out of the subdivision of the large-landowner estates. To workers, the Conciliation and Arbitration Act of 1894 was what the land reform was to small farmers. Thus, New Zealand instituted the system of compulsory arbitration and wage-fixing a full decade earlier than did Australia. In import-substituting industrialization, however, it lagged

way behind its neighbour, not to mention Canada.

Australia and New Zealand established a similar system of compulsory arbitration, wage-fixing, and social security under different rural/pastoral structures: capitalism with high levels of proletarianization and simple commodity production involving a large class of small farmers, respectively. They were also at different stages of urbanization. The high level of urban concentration in Australia was a sharp contrast to the scattered geographical distribution of population in New Zealand.[95] Nevertheless, rural proletarianization and urban concentration formed the objective background of a strong Australian unionism both in agriculture and industry. In fact, during the first three decades of the 20th century, Australia had the highest level of unionization among all six countries of our Dominion and Scandinavian groups.[96] The increases in the rate of unionization in Australia and, less markedly, New Zealand during this period can be viewed also in terms of the class-organizing effects of the system of compulsory arbitration and wage-fixing. Such a system strengthened the Antipodean union movements as much as it was strengthened by them.

Differences aside, the historical policy experiences of the three Dominions had

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[95] According to Alexander Brady (1941, pp. 215, 222-3; [1947] 1958, p. 10), the reason Canada did not develop an Antipodean-style system of social and industrial arrangements had to do, first, with its "yeoman" pattern of farming and, second, with its low level of urban concentration relative to that of Australia. Yet, the case of New Zealand refutes his thesis.

[96] The rate of unionization in Australia was 10% in 1905, 25% in 1913-4, and 30% during the post-First World War peak. The two countries which had the nearest rates were Denmark (7%, 13%, and 27%) and New Zealand (8%, 15%, and 19%). These two were followed by Sweden (5%, 6%, and 11%), Norway (2%, 7%, and 13%), and Canada (n.a., 6%, and 12%). On this, see Stephens (1979, p. 115/tab. 4.8).

a number of common consequences assembled under the rubric of Dominion capitalism.[97] Dominion capitalism was not distinguished from Western European and US capitalisms by such criteria as the standards of living, wage levels, urbanization, labour-force distribution, use of technology, productivity per person, and capital-labour ratio.[98] What distinguished Dominion capitalism from its Western European and US counterparts were the extreme reliance on the export of a few staples (the "staple trap"), domestic-market orientation in manufacturing industries as a result of import-substituting industrialization, heavy capital imports and foreign indebtedness, and high levels of foreign ownership in the manufacturing and extractive sectors.[99] These features were directly related to the financial organization of Dominion capitalism.

The British version of commercial banking defined the development experience of all three Dominions. The "industry-shy" commercial banks played a crucial role in the "national" and market orientation of the Dominions' manufacturing sectors. By and large, these sectors produced for the domestic market but were financed from abroad through direct investment. In contrast, the financial sectors remained the preserve of

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[97] I borrow the term Dominion capitalism from Philip Ehrensaft and Warwick Armstrong (1981). According to them, Dominion capitalism defines the three formal (Canada, Australia, and New Zealand) and two informal (Argentina and Uruguay) White Dominions.

[98] Ehrensaft & Armstrong (1981, pp. 100-1). In the case of Canada, Leo Panitch (1981, pp. 18-9) argues that, even relative to Europe, a high-wage proletariat emerged in the late 19th century.

[99] See Watkins (1963) for the process of being caught in the "staple trap"; Plumptre (1937) for the pivotal place of a limited number of export staples in the economic and social life of the Dominions.

domestic capital and, in the case of Canada, developed an international perspective. The financial-industrial disarticulation was especially conspicuous in Canada.

The Dominions' convergence in protectionism during the 1930s had to do with this financial-industrial disarticulation as well as with their common imperial/metropolitan linkages. The strength of the Antipodean labour movements made a difference in the field of social protection and industrial regulation. This statement has to be qualified in the case of Australia. During the 1930s, the Commonwealth governments, including the Labor government, were not less orthodox than the federal governments in Canada. Under the Labour government in the second half of the decade, New Zealand surged ahead of Australia in social protection and industrial regulation.

In the next section, I will focus on the political framework of economic-policy making in Canada. I establish Canada's semi-sovereign majoritarian polity as a third determinant of its conservative response to the world economic crisis. In doing so, I contrast the elitism of Canadian polity with the more popular-democratic content of the Australian and New Zealand polities.

PARTIES, STATE, AND THE REGIME

In order to have an adequate explanation of Canada's trade-centred protectionism in the 1930s, we must highlight the features of its polity in addition to the metropolitan linkages and financial organization of its economy. In doing so, we will first look at

the political-party platforms and their relevance for federal economic policies. We will then switch to the "supply" (state) side of economic-policy formation, to use the language of Smithian economics. Our key task at this level is to identify the means of economic intervention available to the federal government. In the last place, we will explore the liberal majoritarian regime context which shaped the political-party and state (legislative, judicial, and executive) features both in representational and institutional terms.

Conservatives, Liberals, and the "Third Parties"

During the period between the National Policy and the Second World War, the tenure of the Conservative and Liberal governments was unambiguously linked to the cycle in the world economy. The Conservative Party governed in those periods when the world economy took a downturn: that is, 1878-96, 1911-21, and 1930-5. Alternatively, the Liberal periods of governance, which were 1896-1911, 1921-30, and post-1935, corresponded to the expansionary cycles in the world economy. In the Canadian context, both the contractionary and expansionary phases had a special meaning. The "busts" were not so much about the financial and industrial sectors as about the resource/extractive sector. Similarly, what accounted for the "booms" in the economy was the resource/extractive sector. In regional terms, the relative balance of economic power shifted towards Central Canada during the "busts", and towards the West during the "booms".

Economic cycles also had a patterned impact on the relative balance of political power between the federal and provincial governments. The downturns tipped the balance towards the federal level of government by strengthening the centripetal tendencies. In contrast, the upturns strengthened the centrifugal tendencies and, thus, tipped the balance towards the provincial governments, especially those in the West. At the level of economic policy, the height of industrial protection corresponded to the contractionary cycles. During the expansionary cycles, we observe a moderate decline in the levels of industrial protection, if not free trade.

We should identify both the policy positions and support bases of the two governing parties during the 1930s in light of these long-term regularities. The first thing to be noted was the orthodoxy of the Conservative and Liberal positions on monetary and fiscal issues.[100] As the party of "nation-building", the Conservatives were the initiators and main defenders of protective tariffs. Representing the industrial and financial interests based in Central Canada, Ontario in particular, they established themselves from the outset also as the party of centripetal tendencies, both economically and politically. Another general characteristic of the Conservative project was its "imperialism" in relation to Canada's historical tension between the imperial (UK) and

[100] On the convergence of the Conservative and Liberal party-positions in monetary and fiscal orthodoxy, see Brecher (1957, pp. 51-8, 83-7, 156-8); Neatby (1969, pp. 93-8; 1972, chs. 4, 5). F. S. Chalmers (1933, pp. 20-30), who wrote for the Liberals at the time, gave an excellent exposition of both the Liberal and Conservative views on the issue, by ardently defending the principles of "sound money and balanced budget".

continental (US) pulls.[101]

The Liberals provided an alternative to each one of these three pillars of the Conservative position. Since they relied for support mainly on the resource sector, the Liberals favoured free trade, opposing the protective, but not the revenue-generating, aspect of the industrial tariffs.[102] For the same reason, they became the champions of the centrifugal forces by emphasizing provincial rights and autonomy. As opposed to the "imperialism" of the Conservative project, the Liberals' was continentalist in the sense that they consistently sought closer economic ties with the United States.[103] The Liberal project was, thus, a mirror image of the Conservative on the three crucial issues of Canadian economic policy: industrial protectionism-free trade, federal-provincial relations, and imperial-continental connections.

The fact that the Conservative and Liberal parties alternated in government according to the cyclical turns (downturns and upturns, respectively) in the world

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[101] In terms of economic policy, the "imperialism" of the Conservative Party came to mean an advocacy of the imperial preferential tariffs. In the meantime, the Party defended the tariffs not only for protecting the industries and the jobs but also for generating revenue for the state. For this, see "The Conservative Platform [1927]" in Stacey (1972, pp. 43-6); also Brecher (1957, p. 204).

[102] Thus, in its domestic and international aspects, the policy stance of the Liberal Party was reminiscent of the 19th-century, **laissez-faire** liberalism (McAndrew nd., pp. 16-8; also Finkel 1977, pp. 354, 357, 360-1). For the revenue-oriented, low-tariff stance of the Party, see "The Liberal Platform [1919]" in Stacey (1972, pp. 36-43). In their crusade for free trade and against protectionism (including the Empire preferential tariff system) during the Great Depression, the Queen's University economists were also representative of the Liberal stance on foreign trade (McArthur 1932; especially Department of Economics, Queen's University 1934, pp. 92-5).

[103] On the historically continentalist position of the Liberal Party, see Brodie & Jenson (1980, pp. 40-3); Perry (1955, 98-9).

economy did not, however, mean that there was a full convergence between what they stood for and what they did when governing. We should remember that it was a Liberal government which responded protectively in 1930 to the proposed Hawley-Smoot tariffs in the United States. That another Liberal government signed the US-Canadian trade agreement in 1935 was in fact the conclusion of a process initiated by the Conservative government back in 1932.[104] In the past, too, there were many instances in which government trade policy departed radically from the stance of the governing party. For example, the National Policy Conservatives followed a low tariff policy in the early 1890s seeking to renew the Reciprocity Treaty of 1854-65 with the United States, whereas the Liberal government of the late 1890s turned out protectionist --and also "imperialist" as in the case of the introduction of the imperial preferential tariffs in 1898.[105] The concurrent trade policies in the United States formed part of the reason for this "incongruence" between party and government positions in Canada.

On the domestic plane, government policies were not always fully consistent with party principles either. However abortive it proved to be, the "Bennett New Deal" of 1935 stands as a practical refutation of the monetary and fiscal orthodoxy which had defined the Conservative party stance (and government policy) since 1930.[106] It was

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[104] It is interesting to note that the 1935 "Reciprocity" agreement with the United States was signed just one month after the Conservative government had been voted out of office (Wilbur 1969, pp. 9-11).

[105] Fowke (1952, p. 272); Irvine ({1920} 1976, p. 58); McDiarmid (1946, pp. 167-8, 203).

[106] For a business-concession view of the "New Deal" legislation, see Brodie & Jenson (1980, pp. 175-6); Finkel (1977, pp. 348, 353; 1979). For an election-ploy (on

(continued...)

also another Conservative government (to be more specific, Conservative-dominated "Union" government) which introduced the first federal labour-exchange program in 1918. As for the Liberals whose economic (and social) policy principle in the 1920s and 1930s was one of extreme "caution", they began to experiment with countercyclical spending from 1938 onwards, and introduced unemployment insurance in 1940.[107] The concurrent policy agenda in the United States, New Deal in this case, played again a significant role both in the "Bennett New Deal" of 1935 and in the Liberal openings towards Keynesian demand management in the late 1930s. Moreover, by the time the Liberals made these openings, they were already transforming themselves into the party of centralism, thus signalling a turnabout in party positions.

While the policy stand of the two mainstream parties was not entirely irrelevant to how they governed economically during the Great Depression, their (or their leaders') ideological stand was. With about one quarter of the labour force being out of work for five years of Conservative rule, the "communitarian" and "statist" strands informing the "Tory" ideology were just an irony. By striking a successful New Deal, the full-blown liberal Democrats in the United States proved to be much more

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[106](...continued)
the part of Conservative Prime Minister R. B. Bennett and Liberal opposition leader W. L. M. King) view of the legislation, see Forster & Read (1979); McConnell (1969); McNaught (1967, p. 264); Struthers (1983, pp. 127-9).

[107] See Neatby (1972, pp. 85-6) for the fiscal "breakthrough" of 1938; Struthers (1983, pp. 24, 31, 40-2, 95) for the Liberals' evasion of the issue of unemployment insurance in the 1920s and 1930s.

"collectivist" than the Conservative carriers of the "Tory touch" in Canada.[108] If there was one successful use of "Toryism" at the time, it was made for exclusionary and repressive purposes.[109] In the case of the "liberal corporatism" of W. L. M. King, Canada's longest-serving Prime Minister, ideology was even more distanced from the reality of politics and policy.[110]

Corporatist tendencies did, however, surface from within the business community during the 1930s. Under the influence of the world-historical shift towards corporatism at the ideological level, some Liberal-leaning businessmen entertained the idea of a trilateral partnership involving business, labour and the government for the political regulation of economic life.[111] In more policy-related terms, proposals also came from within the business community for a countercyclical change of direction in macroeconomic policies.[112] Yet this "radicalism" in political and economic ideology characterized only a fringe element of the business community and it hardly went beyond the limits of an "academic" exercise.

The innovative thinking in economics profession was another matter of

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[108] For the conception of "Tory touch", see Horowitz (1968, esp. pp. 10-23); also Whitaker (1977a, p. 34). According to Gad Horowitz (1968, pp. 21-2), Bennett's abortive "New Deal" was the manifestation of a latent "tory-democratic" streak.

[109] Panitch (1979b, p. 51).

[110] See Whitaker (1977a, p. 56; especially 1977b, pp. 140-61); also Panitch (1979b, p. 54) for W. L. M. King's "liberal corporatism" meaning an ideology of partnership involving capital/management, labour/community, and the government.

[111] For a representation of this "liberal corporatist" opening within the business community, see Hankin (1933); Hankin & MacDermot (1933, esp. chs. 13-15).

[112] Brecher (1957, pp. 114-8, 202-3).

irrelevance to actual government policies during the 1930s. The fact that the establishment of the Bank of Canada was aided by favourable professional advice on the part of a majority of the economists did not form an exception to this rule.[113] Defending central banking was by no means an innovation in the economics profession. Nor was the late acceptance of central banking in Canada an innovative action from the point of view of the government. Moreover, domestic political pressures put up by especially Western-based "third parties", and the urgings of the World Monetary and Economic Conference in 1933 played respectively as great a role in the establishment of the Bank of Canada as the professional economic advice did.[114]

Innovative thinking on the critical issues of macroeconomic and social policy went largely unheeded. Examples were the proposals put forth by a number of economists in the early 1930s for currency devaluation, cheap money, public works, and unemployment insurance.[115] Towards the end of the decade, some of these proposals even made their way into policy-advising bodies, such as the National

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[113] The "Queen's University view", for example, was supportive of a central-banking institution for Canada. See Curtis (1931; 1932); Department of Economics, Queen's University (1933). See Brecher (1957, pp. 142-56); Owram (1985, pp. 370-1) for the overall attitude of the economics profession towards central banking.

[114] On this, see Bordo & Redish (1987, pp. 414-7); Plumptre (1938).

[115] E.g., Cassidy (1931) on unemployment insurance; Jackman (1934, p. 216) on public works and cheap money. See Brecher (1957, pp. 118-29, 207-12) for other proto-Keynesian economists in Canada. Writing back in 1909, O. D. Skelton strikingly demonstrates the long history of proto-Keynesian ideas in Canada (quoted in Perry 1955, p. 295): "[i]n times of depression, when private enterprise halts, when men and funds lie idle and prices fall, governments should push permanent work with all haste."

Employment Commission and the Royal Commission on Dominion-Provincial Relations, by means of the Queen's University economists.[116] Moreover, under the Liberals, the "Queen's University view", which was a weaker protofordist combination of free trade, demand management, and social redistribution, was represented in such policy-making bodies as the Departments of Labour and Finance, and the Bank of Canada. The federal civil service became favourable to the proposals of the National Employment Commission in 1937-8 for unemployment insurance, among other things.[117] The "cautious" Liberal leadership would not, however, move on unemploy-

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[116] On this, see Ferguson & Owram (1980-1); Owram (1985; 1986, chs. 6, 7, esp. 9).

The Liberals' modest move towards demand stimulus came after the National Employment Commission submitted its interim and final reports. This might suggest that the Commission positively influenced such a move. However, this was not the case. In its interim report of July 1937 (for the "Interim Report", see National Employment Commission 1938, app. A), the Commission came out with a recommendation for the reduction in public-works spending (1938, app. A, p. 14, emphasis original): "[w]ith the rapid improvement taking place in employment conditions in private industry, the Commission decided to recommend that, <u>at this stage of the recovery</u>, not only should there be no expansion in public works programmes, but that there should be a very substantial contraction in the total governmental expenditures for public works projects." In its final report of January 1938, the Commission not only maintained this "narrow Keynesianism" but also adopted the "maximum utility principle" for initiating public works programs (1938, pp. 34-7).

Concerning the recommendations on federal spending policy, the Royal Commission on Dominion-Provincial Relations continued the tradition of the National Employment Commission (1940, book 2, pp. 23-4). The fiscal area on which the Royal Commission had innovative recommendations was the federal taxation policy. It proposed that the federal government should take over certain taxation areas from the provincial governments (1940, book 2, pp. 111-21). When the Commission proposals were formally submitted to the Liberal government in May 1940, the war-economy choice involving most of those proposals had already been made in Canada.

[117] Struthers (1983, ch. 6). We should also note that, back in 1921, the Department of Labour produced a rough draft for a comprehensive unemployment insurance scheme modelled on the UK legislation of 1911 (Struthers 1983, p. 23).

ment insurance until after the onset of the Second World War.

Such innovative ideas were not confined to a small group of economists. They had the political backing of the mainly Western-based, independent "third parties" and of some provincial wings of the Liberal Party. Even before the major "third parties" sprang up around the mid-1930s, a small group of Western MPs made the case for demand stimulus with the onset of the crisis.[118]

Canada's radical "third parties" waged a losing battle for economic change during the Great Depression. Of the three "third parties", which came into existence and contested federally in the 1930s, only the Reconstruction Party had no particular agrarian connection. Even so, this Party complemented the other two, namely the Co-operative Commonwealth Federation (CCF) and the Social Credit Party (Socred), by appealing particularly to the urban, small-business wing of the petty bourgeoisie, and did not differ much from them in demanding for policy change.[119] Unlike the CCF and the Socred, however, it quickly vanished from the political scene after waging an unsuccessful struggle against "big business". As for the CCF and the Socred, their

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[118] Brecher (1957, pp. 26-7, 92-7, 204-7).

[119] The Reconstruction Party, a splinter from the Conservative Party, was founded in 1935 by H. H. Stevens, who had served as Minister of Trade and Commerce in the Bennett government until 1934, and chaired the Royal Commission on Price Spreads from its inception in July 1934 to October 1934. The report of this Royal Commission in April 1935 informed the "anti-monopoly" platform of the Party (for the published version of this report, see Royal Commission on Price Spreads 1937, esp. pp. 124-42, 264-75). Like the Royal Commission report, the Reconstruction platform included a federal trade and industry agency to check the monopoly tendencies in the distribution sector, public works programs, progressive taxation, and labour and social legislation (Wilbur 1964; 1969, pp. 11-3). As well, there were close connections between this Royal Commission and the "Bennett New Deal".

agrarian radicalism was a regional, namely Western-Canadian, phenomenon.[120]

Regardless of their differences defining the ideological dimension of agrarian radicalism, the "left" CCF and the "right" Socred took the same oppositional stand in relation to federal economic policies, and proposed similar crisis-specific measures especially at the monetary and fiscal level.[121] Mediating mainly the Prairie farming interests, they both assumed a crusade against Central-Canadian "big business". Whereas the Socred "operationalized" its target as the commercial-banking groups, the CCF took aim at the big-business community in general. They also rightly identified the industrial protectionism and financial orthodoxy of the federal governments as serving Central-Canadian interests.

The Socred proposed to solve the problems of indebtedness and high costs of borrowing in agriculture by providing each producer with a share of "social credit".[122] After taking provincial office in Alberta in 1935, it in fact transformed this proposal into a legislative package. Yet the "social credit" legislation could not pass

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[120] Another instance of regional radicalism in Canada was the Maritime Rights Movement of the 1920s. As a cross-class alliance under the leadership of the business and professional groups, the Movement aimed to "restore" the position of the Maritime Provinces in the Confederation, which had been weakened by the concentration of manufacturing industries in Central Canada and by the rise of wheat economy in the Prairies (Forbes 1979; 1983, pp. 17-9).

[121] For a comparative view of the CCF's "left" and Socred's "right" agrarian radicalism, see Conway (1978, pp. 118-24; 1979, pp. 84-91); Finkel (1989, ch. 8); Laycock (1990, chs. 4, 5); Naylor (1972); Sinclair (1975).

[122] For the "Social Credit Platform [1935]", see Irving (1959, pp. 349-51). The Socred had borrowed the "social credit" doctrine from Major C. H. Douglas (Macpherson [1953] 1962, chs. 4, 5).

the Constitutional test.[123] The predecessor of the Socred in government was another agrarian party, the United Farmers of Alberta (UFA), which had held the office from 1921 to 1935. Despite its more radical overtones, such as emphasis on egalitarianism and defence of corporatism in the form of "group government", the UFA had similarly proved to be unable to translate its ideas into the realm of policy.[124]

As a matter of fact, no agrarian party holding provincial office before the Second World War was able to innovate in policy terms. As was the case with the UFA, the provincial politics of the other United Farmers movements during the 1920s did not bring about any policy innovation.[125] During the same period, agrarians had a more successful record at the federal level, at least in terms of tariff changes. The Progressive Party contributed to lowering of the tariffs by supporting a minority

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[123] On the Socred government in Alberta during 1935-40, see Finkel (1989, ch. 3); Macpherson ([1953] 1962, chs. 7, 8).

[124] The work of William Irvine ({1920} 1976, pp. 105-17, 213-23), who was a leading figure in the UFA, is exemplary of the UFA platform. Irvine emphatically echoes the traditional Western agrarian opposition to industrial protectionism by defining the latter as the "tariff crime". On the UFA, see also Finkel (1989, ch. 2); Laycock (1990, ch. 3); Macpherson ([1953] 1962, chs. 2, 3).

Furthermore, Irvine's work ({1920} 1976, pp. 75-85, 173-92, 223-53) informed the corporatist strings in the UFA ideology of "group government", which meant the proportional representation of all major, organized interests at both the legislative and executive levels. In addition to the UFA's "group government" ideology, Leo Panitch (1979b, pp. 52-65) examines the clerical solidarism of the Union Nationale in Quebec as another instance of region-specific ideological corporatism in Canada. See Quinn (1963, ch. 4); Simeon & Robinson (1990, pp. 68-73) for the policy platform of the Union Nationale, which assumed provincial office in 1936.

[125] The United Farmers of Ontario was another United Farmers movement which held provincial office. Between 1919 and 1923, it governed in coalition with the Independent Labour Party of Ontario. See Wood ({1924} 1975, pp. 273-344) for the United Farmers movements across Canada.

Liberal government under conditions of an expanding world economy. The Progressives did not, however, live up to their promise of the "New National Policy" (of full free trade) and, by the mid-1920s, they were no longer a force to be reckoned with.[126]

Born in the midst of the Great Depression in 1932, the CCF stood out among the agrarian parties since there was an urban socialist, if not labour, string attached to it. While its mass support base was by and large agrarian and regional (Western Canadian), it had also the mark of the urban socialist influences from Central Canada.[127] As a result of this, the CCF policy platform, which was formulated in the Regina Manifesto of 1933, took on the difficult task of appealing simultaneously to agrarian and labour interests both in Western and Central Canada. Interpreting the Depression as the mortal crisis of capitalism, the Regina Manifesto envisioned a millennial "co-operative commonwealth" in which the utilities and financial sectors would be fully socialized, and in which planning would replace competition as the

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[126] The Progressive Party was a political offshoot of the Canadian Council of Agriculture. The "New National Policy", which formed the Party's electoral program in 1921, was based on the "Farmers' Platform" prepared by the Council. The anti-tariff "Farmers' Platform" was first drafted in 1910, and then revised twice (in 1916 and 1918). For its 1918 version, see Laycock (1990, pp. 301-5); Morton (1950, pp. 302-5); Stacey (1972, pp. 32-6). On the Progressive Party in general, see Brodie & Jenson (1980, pp. 105-10); Conway (1979, pp. 81-2); Laycock (1990, ch. 2); Morton (1950, esp. chs. 4-6); Wood ([1924] 1975, pp. 345-64).

[127] The constituent elements of the CCF were the provincial United Farmers movements in the Prairies and Ontario, numerous small "labour parties", and a group of socialist intellectuals based in Central Canada. On the agrarian character of the CCF diluted by the urban socialist influences, see Brodie & Jenson (1980, pp. 164-70); Finkel (1979, ch. 10); Lipset ([1950] 1968, ch. 4); Teeple (1972b, pp. 230-41); Young (1969, pp. 12-36).

guiding principle of economic life.[128] In less millennial terms, the Manifesto promised to remove the "insane" protectionist policies, on the one hand, and to take the entire foreign trade sector under state control, on the other. The promises for a prospective urban constituency included an emergency program of public works to be financed by deficit spending, progressive taxation, and labour and social legislation.

Intentions and promises aside, the CCF remained on the whole an agrarian phenomenon during the 1930s. Even in agrarian terms, it could not reach a Canada-wide level of representation: it was regionally Western Canadian, ethnically Anglo-Saxon, and Protestant in religion.[129] It failed to fashion an all-Canadian agrarian movement, let alone to articulate with the union movement. Taking a broader view of the agrarian movement in Canada, we can conclude that it was as divided as the politically feeble labour movement.[130] Thus, unable to unify within themselves, the

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[128] For the Regina Manifesto, see Stacey (1972, pp. 46-52); Young (1969, pp. 304-13). The CCF's Regina Manifesto was in fact an expanded version of the Manifesto of the League for Social Reconstruction (LSR), which was established earlier in 1932 by English-speaking intellectuals based in Montreal and Toronto. For the LSR's Manifesto, see Horn (1980, pp. 219-20); League for Social Reconstruction ({1935} 1975, pp. ix-xi). In Social Planning for Canada ({1935} 1975), the LSR in turn elaborated on the themes emphasized in the Regina Manifesto.

[129] The CCF, as Alexander Brady (1941, p. 218) put it, "has failed in its attempt, for it has been little more than a number of regional parties under one label; agrarian on the prairie, mainly urban in British Columbia and Ontario, and with little appeal at all east of the Ottawa". As for the Ontario connection, the first to leave the CCF was the United Farmers of Ontario, which was followed by the intellectual "club section" (Caplan 1963).

[130] In this context, Gordon Laxer (1989, esp. ch. 4; also 1988, pp. 209-10) attributes the "weak impact that agrarians had on the state during initial industrialization" mainly to divisions within the agrarian movement along the ethnic, linguistic, and religious lines.

labour and agrarian movements in Canada were far from realizing a "red-green" alliance during the Great Depression. This conclusion should be the point of departure for us in assessing the assumed strong performance of both labour and agrarian socialism in Canada (relative to the US case), which is attributed to the British connection.[131] From the vantage point of economic and social policy, at least, the weaker socialism of the labour and agrarian movements in the United States was much more effective than the stronger socialism of their counterparts in Canada.

From a Dominion perspective, the variation in political strength of the producing classes had its impact mainly on social policy, not on economic policy. The "red-green" alliance, which Canada did not see in the 1930s, had already become a political reality in Australia and New Zealand back in the 1890s and 1900s. While the CCF and its predecessors, agrarian and labour alike, came to represent the regional opposition of Western Canada to, say, protective tariffs; the Australian Labor Party

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[131] On the implications of the British connection for Canada's socialist movements, see Horowitz (1968, ch. 1, 2); Lipset ([1950] 1968, ch. 2); Pentland (1979, pp. 67-71); Whitaker (1977a, p. 58). For Horowitz and Whitaker, the British bourgeois connection, namely the Tory ideology, had a "socialist" impact on Canadian labour and agrarian movements in the form of "Red Toryism". For Lipset and Pentland, it was the British labour connection that had injected socialism into these movements.

In this regard, we should also do justice to the impact of the US connection on Canadian agrarian and labour radicalism, if not socialism. Early radical agrarian movements in Canada, such as the Patrons of Husbandry in the 1870s and the Patrons of Industry in the 1890s, were in fact imports from the United States (Wood [1924] 1975, chs. 4-12). Lipset himself describes US agrarian radicalism in the late 19th century as an antecedent of Canadian agrarian radicalism in the early 20th century ([1950] 1968, ch. 1). Similarly, industrial unionism was first introduced to Canada by a US-based organization, namely the Knights of Labour, which was active in the 1880s.

(ALP) actively participated in the "nation-building" industrialization drive, from the early 1890s on, by forming the country-wide coalition of the urban and rural labour on a protectionist basis.[132] Another contribution of the ALP to "nation-building" was its adoption of the "White Australia Policy" in 1905. In terms of exercising political power, the ALP scored a number of "first"s in the world: the first local labour government (Queensland, 1899); the first national labour government (1904), and the first majority labour government at the national level (1910).

Regionalism, which had marred the radical agrarian and labour movements in Canada, did not become a central issue of contention within the Australian labour movement. Although the New South Wales wing of the ALP launched a "populist" revolt at the regional (state) level in the early 1930s, it was back in the fold before the end of the decade.[133] In the presence of a united labour movement at both the union and party levels, the "bourgeois split" did not take on an institutionalized form in Australia.[134] For example, the contention between the protectionist and free-trader bourgeois parties at the turn of the century soon resulted in their unification, which

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[132] For a comparative analysis of the ALP as the national alliance of the urban and rural labour on a protectionist platform, see Brady (1941, pp. 224-5; [1947] 1958, ch. 9); Castles (1988, pp. 112-4); Moran (1970).

[133] New South Wales Labor had in fact broken with the ALP. It garnered over 10 and 14% of the popular vote in the 1931 and 1934 federal elections, respectively (Mackie & Rose 1974, p. 13/tab. 1.10). On the "radical populism" of the New South Wales Labor, and its containment, in the 1930s, see Alexander (1989, pp. 308-9).

[134] In this regard, Philip Ehrensaft and Warwick Armstrong (1981, p. 132) argue that the "conflict with a socialist political party was an important factor in forging a relatively greater strategic cohesion among the Australian bourgeoisie as compared with its class equivalent in Canada" and that "this cohesion permitted the Australian upper class to create a stronger independent economic base".

would last at least throughout the 1910s.

In New Zealand, the "red-green" alliance was first forged by the Liberal Party in the 1890s. Thus, when the Labour Party emerged as a political force to be reckoned with in the late 1910s, it had this "Liberal" tradition to build on. By resuming the unfinished business left by the Liberals, the Labour Party built a more urban-based alliance of the workers and small farmers, which would carry it to political power in 1935.[135]

Yet, as we know, these sharp contrasts in political strength of the producing classes between the Canadian and Antipodean Dominions did not translate into differences in the domain of macroeconomic and commercial policy during the 1930s. The main policy differences between the two were rather in terms of labour and social legislation, in which the Antipodean Dominions had already taken an early lead. At the level of macroeconomic policy in particular, all three Dominions conformed to the pattern of their "parent" country. This leaves us with a double task, that is, establishing the British connection at the state and regime levels as we did it at the level of financial system.

A Federal but Semi-Sovereign State

It would not be an exaggeration to say that the Canadian Confederation embodied one of the most decentralized forms of federal state organization. Obviously,

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[135] Brady (1941, p. 230).

such a federalism set certain limits on how swiftly and effectively federal governments could respond to the exigencies of the Great Depression. Yet we should not forget the more important fact that the Canadian Confederation had a semi-sovereign status as a Dominion. The jurisdictional interpretations of the federal-provincial balance of power in the Constitution, rendered ultimately in the United Kingdom, consistently ruled in favour of provincial rights. Both in the past and the 1930s, federal governments relied disproportionately on tariff policy as one of the few policy areas that fell undisputably under federal jurisdiction. They used the tariffs for generating revenue as well as for protecting industry. This "jurisdictional" limitation formed one reason why tariff policy assumed such an overriding role in federal economic policy.

A second area in which the Canadian federal state had a freer hand in jurisdictional terms was that of ownership and assistance to private entrepreneurs. Compared with the UK, all three Dominion states (especially the Australian and New Zealand) played a much larger role in this area. Such a "pragmatic liberalism" was not just a requisite of the late-follower pattern of development. It was at the same time a requisite of the frontier character of the Dominion territories which were vast in area and sparse in population.[136] Thus, under the frontier and late-follower economic conditions, the Dominion states assumed entrepreneurial functions especially in public utilities, on the one hand, and developed a symbiotic relationship with the private entrepreneurs, on the other. In this respect, they differed from the state of another

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[136] See Brady ([1947] 1958, p. 13) for the Dominions in general; Mackintosh (1950, pp. 317-8) for Canada in particular.

frontier, yet early-follower economy, namely the US state, as well as from the "parent" state.[137]

In the case of the Canadian state, while the entrepreneurial role it played directly was small, the extent to which it assisted the private entrepreneurs was not small, in comparison with the other two Dominion states. For example, the National Policy tariffs served not only the obvious purpose of protecting the domestic industries, which was by itself an indirect form of assistance to various businesses, but also the less highlighted purpose of directly financing the private railway-building programs.[138] However, assisting private enterprise, directly or indirectly, did not exhaust the aim of the Canadian tariff policy. We should approach the tariff issue also from the point of view of the federal state's requirement to generate revenue for those of its fiscal functions which are not directed towards private accumulation.

A historical look at the contribution of the customs duties to federal budgets will reveal the extent to which the tariff policy was used for fiscal purposes. From 1867 to 1915, import duties had accounted for about two-thirds of the total federal revenues.[139] After the First World War, they continued to be the single largest item in revenue budget although their share in it got smaller due to the increasing use of

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[137] On the greater statism of the Canadian state in comparison with the UK and US states, see Orloff (1985, ch. 8); Orloff & Parker (1990, pp. 319-22).

[138] For a historical perspective on the use of the customs revenues in Canada for financing the transportation sector in general, see Innis (1933, pp. 1-81; 1972).

[139] See Perry (1955, pp. 72-3, 107, 164); Royal Commission on Dominion-Provincial Relations (1940, book 1, pp. 64, 86, 107) for the share of the import duties in total federal revenues in selected years between 1867 and 1921.

the internal taxation. Thus, the tariffs came to play a preeminent role in Canadian economic policy, both industrially in their protective capacity and fiscally in their revenue-generating and employment-creating capacity. They had a similar role in the cases of the Antipodean Dominions, Australia in particular.

We can approach the unique fiscal function attributed to tariff policy in the Dominions from the vantage point of the Dominion states' weaker equipment in the domain of macroeconomic-policy making. In the absence of adequate state machinery in central-banking, taxing, and internal borrowing, the Dominion governments used the tariffs as a substitute macroeconomic device.[140] In the crucial years of the Great Depression, these governments were as much preoccupied with making policy-making bodies, e.g. the central bank, as they were with making the policy itself. In central banking, Canada was at a special disadvantage although it had the most "mature" Dominion economy.[141] The state of Canada's federal civil service paralleled that of its macroeconomic-policy machinery. By European, if not North American, standards, the Canadian federal civil service was weak in the sense that it was susceptible to, and dependent on, the patronage system of political appointments.[142]

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[140] In this regard, it is worth quoting Harold A. Innis (1934, pp. 7-8): "[r]elative lack of governmental machinery in weaker industrial regions tends to throw increased burdens on customs administration which becomes in turn a means of controlling exchange, of relieving unemployment, of producing revenue, and of maintaining railway rates."

[141] See Curtis (1931, p. 117) on the inadequacy of Canada's Department of Finance in performing central-banking functions in the early years of the Great Depression.

[142] On the Canadian federal civil service, see Dawson (1936). See Orloff (1985, pp. 228-42); Orloff & Parker (1990, pp. 327-30) for the middle-of-the-road position

(continued...)

Consequently, the inadequacy of the macroeconomic-policy machinery, combined with the institutional weakness of the federal civil service which used that machinery, opened the door for the tariff mechanism to assume a substitute fiscal role in Canada. It was not this inadequacy, however, that paved the way for the procyclical definition of the content of the monetary and fiscal policies in the 1930s. In the contrasting case of the United Kingdom, which had an adequate macroeconomic-policy machinery and a highly autonomous civil service, monetary and fiscal policies were similarly (but more orderly) defined by procyclical orthodoxy. Alternatively, the United States, which was closer to Canada than to the United Kingdom with its low level of policy equipment and its weak (patronage-dominated) federal civil service, produced one of the boldest countercyclical experiments in the world in this period.

The US case helps us also to understand that the federal form of state organization in and of itself has no particular policy relevance. Canadian and Australian federalism along with many unitary states, including the UK and New Zealand states, stuck with procyclical orthodoxy. US federalism went along with some other unitary states, such as the German and Swedish states, in taking a countercyclical direction. One reason Canadian federalism turned out to be inhibitive of active and

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[142](...continued)
of Canada between the United States, whose federal civil service was fully patronage-dominated, and the United Kingdom, whose central ci il service represented the other extreme, namely autonomy from political patronage. In Orloff (1985) and, to a less extent, Orloff & Parker (1990), this position of the Canadian federal civil service accounted for the middle-of-the-road position of Canada in timing of the welfare legislation, with the United Kingdom and the United States being early- and late-comers, respectively.

timely macroeconomic measures was that it had jurisdictionally been the closest possible expression of the country's economic and political fragmentedness along the sectoral and regional lines. In the case of Australia, federalism took on a more articulated form, because the economic and political forces there were less fragmented, sectorally or regionally.[143]

This said, Canadian federalism, or any other federal structure for that matter, was more than a passive embodiment of the status quo. The Constitution of the Confederation, British North America Act (BNAA), would add a jurisdictional dimension to the historical tension between (and, in many instances, within) the centripetal and centrifugal forces, by defining the federal and provincial powers in such a vague manner that the two levels of government would constantly dispute each other's sphere of jurisdiction.[144] In the absence of clear-cut jurisdictional boundaries, the centripetal and centrifugal forces took turns in exercising federalism according to their own interpretations.[145] To put it tendentially, centripetal federalism got the upper hand during the contractionary periods, most notably the two Great Depressions, whereas centrifugal federalism got the upper hand during the expansionary periods.

We should, however, identify the shifts in relative balance of power towards the political centre as **de facto**, rather than **de jure**, developments. In other words, centripetal federalism did not bring about any substantial enlargement in the federal

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[143] On Australian federalism, see Alexander (1989); Brady ([1947] 1958, ch. 7).

[144] On the general characteristics of Canadian federalism, see Brady (1934; [1947] 1958, chs. 2, 3); Mallory (1954, chs. 1-3, 7); Stevenson (1977; [1979] 1982, chs. 2-4).

[145] Stevenson ([1979] 1982, pp. 44-61).

sphere of jurisdiction. Historically, the Judicial Committee of the Privy Council in the United Kingdom, which had been Canada's final court of appeal, developed a "provincial bias" in its interpretation of the BNAA. Consequently, as of the early 1930s, the federal government still lacked legislative powers in such crucial areas as the labour market, industrial relations, social policy, and the regulation of the trade and industries.[146] The "New Deal" legislation of the Conservative government in 1935 covered exactly these areas. Yet the whole legislation with some minor exceptions would eventually be declared by the Judicial Committee as **ultra vires** of the federal jurisdiction and, hence, as encroaching on the provincial rights.[147]

In this jurisdictional uncertainty lay one reason why Canada did not establish nationally-coordinated unemployment relief and public works programs (let alone unemployment insurance, labour standards, and a system of commercial and industrial regulation) during the 1930s. Despite the fact that the Dominion bore the brunt of the

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[146] Brady (1934, pp. 174-80). We should note that, prior to the 1930s, the federal government had taken legislative initiatives in industrial relations, price-fixing, and profit restriction. But, the Judicial Committee declared these initiatives **ultra vires** of the federal jurisdiction. Exceptionally, the Employment Offices Co-ordination Act (1918) and the Old Age Pension Act (1927) did not face the test of the Judicial Committee, because the provincial governments had been involved in both cases.

[147] The Judicial Committee had cancelled the "New Deal" legislation, in view of Sections 91 and 92 of the BNAA. Whereas Section 91 ("peace, order and good government of Canada") defined the federal domain, Section 92 ("property and civil rights in the Province") defined the provincial domain. Thus, according to the Judicial Committee, the entire legislation virtually went beyond Section 91 and encroached on Section 92. On the Constitutional fate of the "New Deal" legislation in the 1930s, see Cairns (1971, pp. 322-7); Neatby (1969, pp. 92-3); Pal (1986, pp. 77-91); Royal Commission on Dominion-Provincial Relations (1940, book 1, pp. 247-52); Scott (1937); Simeon & Robinson (1990, pp. 81-2).

spending on those relief programs administered by the Provinces, it did not have much say on how the spending would be done. Even such an indirect involvement in relief efforts on the part of the federal government was not without its provincial opponents. No matter which political parties were governing at what level, the Provinces of Ontario and Quebec fiercely opposed the Dominion government in its attempt to help the financially-weaker Prairie Provinces.[148] To make the "jurisdictional dispute" more tangled, the Dominion government would use its executive power to disallow wayward monetary and fiscal initiatives taken at the provincial level, as in the case of the "social credit" legislation in Alberta.[149]

The Constitutional constraints were relevant not just to what Canada did not see on the part of the social and economic policy during the Great Depression --e.g., demand stimulus. They were relevant also to what it saw, most notably the revival of industrial tariffs. As one of the few areas which fell undisputably under federal jurisdiction, the tariff policy was used, possibly overused, by both the Conservatives and the Liberals for such purposes as protecting the domestic industries and jobs, and generating revenue for the federal budgets. To conclude, regardless of all other factors, the federal state was constrained Constitutionally from diversifying its policy tools and from developing national standards in a number of policy areas.

Another channel through which the Constitutional arrangements had an impact

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[148] On political skirmishes between the federal and provincial governments during the 1930s, see Alway (1967), Patterson (1969); Simeon & Robinson (1990, p. 77); Stevenson ([1979] 1982, pp. 57, 75).

[149] Mallory (1954, chs. 4, 8, 9).

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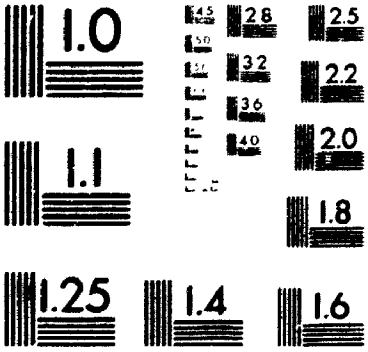

on economic policy was that of the political regime. As was the case with federalism, the kind of liberalism that evolved in Canada was distinctive in Constitutional and substantive terms. What distinguished Canadian liberalism from others was the experience of implanting the British tradition in the French- and British-settler environment of the northern half of North America, with the southern half accommodating a United States which had already broken with that tradition.

British Liberalism in North America

In its production profile, Canada shared more with the United States than with the United Kingdom and the Antipodean Dominions. For one thing, the "branch-plant" connection came to mean that Canada paralleled the United States more than any other country in the world in industrial and extractive sectors. An indication of this was that the two countries followed parallel economic cycles during the Great Depression of the 1930s. Yet, as we know, they also followed radically different policy cycles during the same period. When the Bennett government tried, for whatever reasons, to render the US New Deal in Canada, its progeny was stillborn, politically as well as judicially. What set Canada apart from the United States in policy was, I argue, the "branch-plant" connection it had established and maintained with the United Kingdom at the level of political regime.[150]

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[150] See Resnick (1984, p. 27) for a use of the "branch-plant" analogy regarding the Canadian polity.

It seems that the radical agrarian movements in Western Canada had a correct understanding of the causes of their failure to influence federal economic policies. They insistently demanded the introduction of proportional representation (PR) in the House of Commons, the abolition of the Senate as an appointed body, and the transition to a "group form of government". In their demands for change at both the policy and polity levels, these movements, and the "third parties" they paved the way for, were reminiscent of the Liberal Party in the United Kingdom. Although the UK Liberals had a larger and a more urban following, they were similarly ineffective as a third party in having their innovative ideas heeded at the policy level and in making the case for the PR system.

The "winner-take-all" logic of the majoritarian electoral system based on single-member constituencies had been one major factor responsible for the policy ineffectiveness of the third parties in British-style polities. There were, however, notable differences in political viability, if not policy effectiveness, of the third parties between Canada, on the one hand, and the United Kingdom and New Zealand, on the other, with Australia being somewhere in the middle. In the United Kingdom and New Zealand, where the support base of the third parties was not regionally-concentrated but nationally-diffused, the electoral system in question made those parties less viable in political terms.[151] In the case of Australia, the third parties were more likely to

[151] In this regard, we should note that New Zealand had an effectively two-party system as of the 1930s: the Labour Party, on the one hand, and the National Party (first as an electoral alliance of the Liberal/United and Reform parties and then as a party of its own), on the other. See Mackie & Rose (1974, pp. 292-9) for the electoral (continued...)

succeed politically under the same system, given the existence of an economic base for regional concentration of electoral support.[152]

It was the regionally-fragmented economy of Canada which provided the most fertile ground for the third parties to benefit from the system of single-member constituencies. As a general rule, the more regionally-concentrated a third party was, the more successful it turned out in electoral terms.[153] In the 1935 federal election, for example, Alberta-based Socred won 6.9% of the seats in the House of Commons with 4.1% of the popular vote; whereas the CCF and the Reconstruction Party, both (especially the latter) of which had a lower level of regional concentration, won 2.9% and 0.4% of the seats with 8.8% and 8.7% of the popular vote, respectively.[154] At the third-party level, the majoritarian electoral system not only discriminated against diffused national support in favour of concentrated regional support, but also led to a regional concentration in the parliamentary caucus of a party with diffused national

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[151](...continued)
statistics from 1890 to 1943; Brady ([1947] 1958, ch. 12) for the bicameral parliamentary structure (an elected House of Representatives and a nominated Legislative Council) in New Zealand.

[152] During the 1930s, Australia saw the persistence of a "bourgeois" third party (Country Party), and the sudden rise and demise of a "socialist"/regionalist one (New South Wales Labor). See Mackie & Rose (1974, pp. 6-17) for the electoral statistics from 1901 to 1943; Brady ([1947] 1958, ch. 8) for the bicameral parliamentary structure (House of Representatives and Senate) in Australia.

[153] The work of Alan C. Cairns (1968) is a valuable source on the regional bias of the majoritarian electoral system in Canada.

[154] Mackie & Rose (1974, p. 75/tab. 4.10 for percentage of votes, p. 77/tab. 4.12 for percentage of seats). As in the case of the Socred in 1935, the National Progressive Party had benefited from regional concentration in the 1921 federal election by winning 27.2% of the seats with 22.9% of the votes.

support, e.g. the CCF.[155] Taken together, however, the third parties were electorally discriminated against. Between 1930 and 1935, while their combined share of the popular vote increased steeply from 6% to 25.5%, their combined share of the parliamentary seats increased only from 6.9% to 13.1%.[156]

Despite their political visibility, Canada's "third parties" were invisible from the policy point of view. In this context, we should look at the contrasting case of the United States, where no institutionally viable third party emerged.[157] Such features of the US political economy as the relative regional articulation and the presidential system did not provide a favourable environment for third-party radicalism at the federal level. Yet, at the same time, radicalism (agrarian and labour alike) in the United States found a larger space to manoeuvre within the loosely-structured Republican and Democratic parties, and made its way into policy-making processes relatively easily through "lobbying" both at the Presidential and Congressional levels. It was precisely this "crypto-corporatism" of the US polity that allowed the Democratic Party and F. D. Roosevelt to forge the New Deal coalition of the agrarians, workers,

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[155] Cairns (1968, p. 60). In the 1935 federal election, while garnering about one-third of its electoral support from Ontario, the CCF won all of its parliamentary seats from Western Canada, to be more precise, Manitoba, Saskatchewan, and British Columbia (Urquhart & Buckley 1965, p. 617/ser. W 74-164 for votes, p. 619/ser. W 165-176 for seats).

[156] From Mackie & Rose (1974, p. 75/tab. 4.10 for percentage of votes, and p. 77/tab. 4.12 for percentage of seats).

[157] For a Canada-US comparison in third-party strength, see Lipset (1976, esp. pp. 36-52).

and urban "liberals", and to make it work in policy terms.[158]

By contrast, the Canadian polity marginalized not only the "third parties" but also whichever of the two mainstream parties happened to be in opposition. Under the majoritarian parliamentary system in Canada, the party garnering the single largest share of the popular vote won a disproportionately large share of the seats, which was usually enough for that party to have an absolute majority in the House of Commons and, hence, to form a majority government.[159] Moreover, one-party control of the House of Commons and the government would eventually bring about one-party control of the Senate, whose members were politically appointed, not popularly elected.[160] Under the majoritarian parliamentary system, one-party control of the legislative and executive structures was personified by the Prime Minister's "one-man" control of the party caucus and the cabinet.

While being tendentially exclusionary, the majoritarian parliamentary system does not necessarily lead to exclusionary practices in every institutional context. With their labour-inclusionary practices in industrial relations and social policy, Australia

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[158] See Simeon & Robinson (1990, pp. 67-8) on the labour-inclusionary aspect of the US polity in the case of the Wagner Act.

[159] In the 1930 federal election, the Conservatives got 55.9% of the seats with 48.8% of the popular vote, whereas the Liberals got 37.1% of the seats with 45.2% of the popular vote. The disproportionality was even more striking in the 1935 federal election: the Liberals got 70.6% of the seats with only 44.8% of the popular vote, whereas the Conservatives got only 16.3% of the seats with 29.6% of the popular vote (Mackie & Rose 1974, p. 75/tab. 4.10 for percentage of votes, p. 77/tab. 4.12 for percentage of seats).

[160] McRae (1974, p. 250). For party standing in the Senate during the 1930s, see Williams (1956, p. 192/tab. 7).

and New Zealand were the two cases in point. This was because both Dominions implanted the British majoritarian style of rule in an environment of early democratization and working-class mobilization.[161] In Canada, by contrast, the democratic content of the majoritarian rule was weak. In the context of an elitist/aristocratic tradition, democratization occurred late and was incomplete.[162] This tradition made the majoritarian system doubly exclusionary. Far from being receptive to popular pressures, the Canadian polity, as a fusion of elitism and majoritarianism, deprived the agrarian and labour groups of channels of representation.[163]

Although the Canadian polity was not conducive to representation of popular-class interests, it proved to be inclusionary at another level of representation. The accommodation between the elites of English and French Canada, Ontario and Quebec in particular, brought about the inclusion of French Canada as the junior partner in the

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[161] As in working-class mobilization, Australia took an early lead in democratization by introducing vote by ballot in 1858 (Victoria), women's right to parliamentary vote in 1895 (South Australia), and "universal" suffrage in 1902 (in the case of Aboriginals: 1962!). On this, see Brady (1941, p. 220).

[162] In Canada, suffrage for federal elections was under the provincial jurisdiction until 1917. Universal suffrage for federal elections was introduced in 1920. However, suffrage for provincial elections continued to be under the provincial jurisdiction. In the case of Quebec, full manhood suffrage would be introduced only in 1936; and universal suffrage, in 1940. On the elitist/aristocratic tradition in Canada, see Orloff (1985, pp. 216-28); Resnick (1984, chs. 2, 3, 5); Stevenson ([1979] 1982, pp. 28-38).

[163] This conclusion I arrived at is an exact opposite of Ann S. Orloff's (1985, ch. 8). According to her, the Canadian polity, as a combination of the majoritarian parliamentary system and an elitist/statist political culture, was conducive to third-party representation of the popular pressures at the policy level, whereas the US policy, as a combination of the presidential system and a fully democratic political culture, did not provide the popular initiatives with channels through which they could reach the policy-making bodies.

Confederation.[164] Indeed, through such an inter-elite accommodation, the whole legislative, executive, and judiciary structures of the federal state involved a necessary level of representation on the part of French, not to mention English, Canada. This was also the case with the two mainstream parties. In order for the Conservative and Liberal parties to govern at the federal level, they had to garner a certain amount of elite and popular support both in Ontario and Quebec as the representatives of the two "founding nations".[165] To put it in a broader perspective, the Ontario-Quebec correspondence principle was definitive of Canada's polity as well as of its economy.

From the point of view of the two governing parties, the Ontario-Quebec correspondence principle worked in different ways. To speak of the 20th-century pattern, the Conservatives governed federally by maintaining the largest party status in Ontario and by making significant inroads in Quebec. In the case of the Liberals, the road to federal power was the other way around: i.e., they needed to maintain the largest party status in Quebec and to make significant inroads in Ontario. Nonetheless, thanks to the system of single-member constituencies, the Conservatives' parliamentary caucuses became more Ontario-dominated than their share of the popular vote in that Province would justify. Similarly, and for the same reason, the Liberals' caucuses turned out more Quebec-dominated than their share of the popular vote in that

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[164] For the definition of the inter-elite accommodation in Canada as a form of consociationalism, see McRae (1974, pp. 248-54); Noel (1971).

[165] For a historical perspective on this, see Underhill (1956; 1960, pp. 21-42, 192-202).

Province would justify.[166]

It seems that the distorted distribution of the Ontario and Quebec seats between the two parties at issue worked as a catalyst on the "imperialism" of the Conservative project and the continentalism of the Liberal one.[167] The overrepresentation of Ontario (and the underrepresentation of Quebec) in the parliamentary caucuses of the Conservative Party strengthened the UK connection of the Party. Similarly, the US connection of the Liberal Party was strengthened by the overrepresentation of Quebec (and the underrepresentation of Ontario) in the parliamentary caucuses of the Party. Regardless of such an electoral distortion, however, Ontario and Quebec were always in power in any case, given the fact that they together accounted for the majority, 60% as of 1933, of the House of Commons seats. By way of contrast, the Prairies as the epicentre of political and economic radicalism had only 22% of those seats, as of the same year.[168]

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[166] In the 1930 federal election, Ontario's shares of the total Conservative votes and seats were 38.9% and 43.1% (Quebec's: 24% and 17.5%), respectively. In the same election, Quebec's shares of the total Liberal votes and seats were 30.6% and 44% (Ontario's: 33.7% and 24.2%), respectively. In the 1935 federal election, Quebec's shares of the Liberal votes and seats were 31.5% and 31.8% (Ontario's: 34.4% and 32.4%). On the other hand, Ontario's shares of the Conservative votes and seats were 43.1% and 62.5% (Quebec's: 24.7% and 12.5%). On this, see Cairns (1968, p. 61); Urquhart & Buckley (1965, p. 617/ser. W 74-164 for votes, p. 619/ser. W 165-176 for seats).

[167] See Cairns (1968, pp. 68-72) on the regionalist implications of the electoral system for party policy.

[168] Urquhart & Buckley (1965, p. 614/ser. W 17-28). The decrease in Atlantic Canada's share of the House of Commons seats (from 20.4% in 1892 to 11.8% in 1924 to 11% in 1933) was an indication of that region's weakening position within the Confederation (Forbes 1983, p. 12).

To conclude, the historically accommodative relationships between the elites of the two "founding nations" constituted the inclusionary aspect of the Canadian polity. However, this elite-specific ethnic inclusion was juxtaposed with a popular-class exclusion which was expressed predominantly in spatial (regional and sectoral) terms. Such a juxtaposition distinguished the Canadian polity from its Antipodean counterparts by making it more elitist and less democratic. The sheer fact of the "outlying" (meaning the West and, to a less extent, the Maritimes) regions denoted the distancing of some regions and sectors from the institutional policy-making processes at the federal level. Conversely, another sheer fact, namely that of "Central Canada", came to refer to what was central to those same processes.

Regardless of their regional, sectoral, and ethnic differences, the popular classes (most notably, agrarians and workers) received a uniform treatment from the Canadian polity: exclusion. The absence of popular input into federal economic policies during the Great Depression had to do more with this popular exclusion on the part of the polity than with the level of popular demand. That the workers and farmers of Central Canada benefited indirectly from tariff protection did not form an exception to the rule. They did so, simply because they happened to be on the "right" side of geography.

Taking an overall view of Canadian political geography, we can draw three main conclusions regarding federal economic response to the Great Depression. First, federal economic policies had little, if anything, to do with the policy stance of the two governing parties. Second, with their Constitutionally-limited means of intervention,

federal governments relied disproportionately on tariff policy for generating revenue as well as for protecting industry. Lastly, despite their political vibrancy, the innovative "third parties" failed to influence federal economic policies. Canada's majoritarian political arrangements reduced the voice of the "third parties" to a level of insignificance. Combined with the dual metropolitan dependency and financial-industrial disarticulation of its economy, Canada's semi-sovereign liberal majoritarian polity gives us the key to its tariff-centred protectionism during the Great Depression.

SUMMING UP

In accounting for the Dominions' convergence in protectionism, I emphasized their three common features: the imperial/metropolitan linkages with the United Kingdom, commercially-oriented financial arrangements, and liberal majoritarian political institutions. At the level of intra-geosocial divergence in protectionism, I contrasted Canada's dual (UK and US) metropolitan linkages, weak labour movement, and elitist consociationalism to the UK-centred metropolitan linkages, strong labour movements, and democratic traditions of the Antipodean Dominions.

The Canadian-Antipodean divergence was, however, more in social policy than in economic policy. Whereas Canada relied primarily on industrial protection, Australia and especially New Zealand combined industrial protection with social protection. The social protectionism of the Antipodean Dominions had to do in part with the strength of their labour movements. While the Australian governments, Labor and "bourgeois",

did not add anything to the earlier achievements in social protection, the Labour government in New Zealand launched a social-policy drive in the second half of the 1930s, by building on the Liberal achievements of the late 19th and early 20th centuries. In contrast to both Australia and New Zealand, Canada did not have a labour party. Neither did it have a social-protection tradition to build on. A Conservative government tried, and failed, to deliver such a tradition through the "New Deal" in 1935.

Like its successful antecedent in the United States, the failed "New Deal" in Canada was about economic innovation as well. Canada, whose trade policy was in large part moulded by that of the United States, did not follow the latter in macroeconomic and industrial/social policy. The levels of popular (agrarian and labour) mobilization and bureaucratic centralization were higher in the country where the "New Deal" failed than in the country where it succeeded. The United States itself formed part of the reason for the failure of the Canadian "New Deal". The reason why the protectionist-procyclical policy mix got the upper hand over protofordism in Canada had to do with its location in a dual metropolitan context, its commercially-oriented financial system, and its semi-sovereign majoritarian liberal polity.

Crucial to the divergent policy paths taken by the two North American countries during the 1930s were their differences in political regime and financial system. What distinguished the United States from Canada were its crypto-corporatist political regime and industrially-oriented financial system, which underlay the relative success of the New Deal. In this regard, the United States approached Sweden. With

a more cohesive corporatism and a higher degree of industrial-financial articulation, among other things, however, Sweden defined the limits of protofordism.

The next chapter is about Sweden: where and why it diverged from Denmark and Norway, as well as where and why all three converged.

CHAPTER 5

CORPORATISM IN SCANDINAVIA: THE SWEDISH EXEMPLAR

During the Great Depression, Swedish farmers achieved almost everything they wanted. They got protection, subsidies, and marketing boards, among other things. The domestic market they were producing for was closed to the outside world with measures bordering on prohibition. Similarly, the domestic-market oriented Norwegian farmers got internal and external protection. What is more interesting, however, was the protection of the export-oriented Danish agriculture which was the driving sector of the economy. These stand in sharp contrast to the policy performance of Canada's export-oriented farmers who got nothing more than a Wheat Board in the decade. The agricultural sector was not more important to the Scandinavian economies than it was to the Canadian economy. Neither was the electoral strength of any Agrarian party in Scandinavia much different from that of the Canadian CCF and Socred combined.

The "success" of the Scandinavian farmers, like the "failure" of their Canadian counterparts, was part of a small-state response pattern whose main determinants were the political regime, financial system, and metropolitan connections. Scandinavia's response to the crisis of the 1930s conformed to the positive-sum game pattern which was what protofordism was all about. The two pillars of this pattern were the "red-green" alliances (crisis agreements) forged by the Social Democratic/Labour and Agrarian parties, and the industrial "truces" (basic agreements) declared by the business

and labour confederations. It is important to note that we do not take these cross-sectoral and cross-class compromises as something that explain, but rather that need to be explained (as part of Scandinavian protofordism).

The first stimulant of domestic collaboration in Scandinavia was external. Unlike the Dominions, which had the luxury of relying on the parent country and sheer geography for their safety, the Scandinavian countries were extremely vulnerable to dislocations in the interstate system given the fact that they happened to be at the physical and social intersection of opposite imperial projects. The rise of revisionist forces in Europe, particularly Nazi Germany, put Scandinavia in a precarious situation. Sensing the external threat, the domestic actors in each country of the region came to be willing to cooperate, politically and economically.[1] These actors, however, required something more than willingness in order to cooperate: an institutional/organizational capacity and a favourable political medium. Scandinavia's corporatist political regimes and industrially-oriented financial systems were vitally important to the fulfilment of the last two requirements.

Corporatism both compelled and facilitated the "red-green" alliances in Scandinavia. Under proportional representation, the Social Democratic/Labour parties could not form majority governments on their own with a popular support rate fluctuating between 40 and 50%. Conversely, the same system of representation gave the small Agrarian parties a significant parliamentary strength which, in turn, proved to be necessary for the crisis agreements and Social Democratic/Labour governance

[1] Katzenstein (1985, pp. 30, 34, 143, 150).

during the 1930s. Scandinavia's proportional electoral and parliamentary arrangements underlay the politics of "red-green" alignments by checking the strength of the Social Democratic/Labour parties and by pushing the Agrarian parties to the forefront. Corporatism was not, however, limited to proportional representation at the electoral, legislative, and executive levels. It had its bearing on the conduct of "civil" parties as well. The corporatist political environment was facilitative of the basic agreements between the business and labour confederations.

In Scandinavia, only Denmark did not see a basic agreement in the 1930s. The reason for this was that the Danish business and labour confederations had struck their "basic agreement" (the September compromise) back in 1899. While coming late in the 1930s, the Swedish and Norwegian basic agreements were not without antecedents: Sweden had seen an "Engineering agreement" and a "December compromise" in 1905 and 1906, respectively, and Norway, a "Metal agreement" in 1907.[2] In addition to corporatism, the financial organization of Scandinavian capitalism was vital to these agreements, past and present. Unlike the Dominions, the Scandinavian countries had adopted a German-style, industrially-oriented financial system which would bring about a relative homogeneity in their industrial sectors. This homogeneity contributed greatly to the centralized feature of the business and labour confederations and to their politics of bargaining.

This said, we should not overlook the divergence within protofordist convergence across the three Scandinavian countries. The main divide was between

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[2] Kjellberg (1992, pp. 89-90, 94-5, 98).

Sweden, on the one hand, and Denmark and Norway, on the other. Industrial free trade, fiscal stimulus, and active labour-market policy were what distinguished the Swedish experiment from the other two. In accounting for this intra-geosocial divergence, I emphasize Sweden's core position in the world economy (capital-exporting status, diversified trade composition, and competitiveness in metropolitan markets), higher level of industrial-financial articulation and concentration, and unmatched experience of Social Democratic innovation. Throughout this chapter, I use the cases of Denmark and Norway to contrast to the Swedish case.

I divided the chapter into three main sections. The first section examines Sweden's depression experience and foreign economic linkages. In the second section, I look at the domestic-group alignments from a 1930s and historical perspective. This section pays particular attention to the high levels of industrial-financial articulation and concentration in the Swedish economy. Lastly, in the third section, I focus on the party, state, and regime features of the Swedish polity and emphasize its convergence with the Danish and Norwegian polities.

A SMALL, OPEN, BUT CORE ECONOMY

Countries do not need to be in severe economic crisis to innovate in terms of politics and policy. During the Great Depression of the 1930s, Sweden provided the prime democratic example of this. Although the economic downturn it underwent was relatively mild and short-lived, its experiment with a Social Democratic-Agrarian

alliance, LO-SAF **rapprochement**, macroeconomic demand management, and labour-market and industrial-relations regulation would have far-reaching and long-lasting consequences. Similarly, Denmark and Norway innovated politically, if not economically, under conditions of a mild and short-term depression.[3]

All three Scandinavian economies confronted the crisis late in 1930, and had overcome it by the mid-1930s, through the performance of their export sectors. In Sweden, exports dropped by 48% in value and 35% in volume from 1929 to 1932, when the trough of the downturn was reached. By 1937, the value and volume of the Swedish exports were already higher (10% and 9%, respectively) than they had been in 1929. In the case of imports, the drop was less dramatic: 39% in value and 15% in volume from 1929 to 1933. In 1937, the value and volume of imports surpassed the 1929 levels by 19% and 30%, respectively.[4]

The Swedish depression was even milder and shorter at the levels of national income and production, though not employment. After falling by only 11% from 1929 to 1932, industrial production surpassed its 1929 level by 10% in 1934 and continuously increased thereafter.[5] In agriculture, the volume of production was actually higher

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[3] See Hildebrand (1975, pp. 103, 114) on the general pattern of mild depression and early recovery in Scandinavia.

[4] Calculated from Fridlizius (1963, pp. 90-1/tab. 1 for exports, p. 93/tab. 2 for imports).

[5] Compiled from Lundberg (1953/1957, p. 11/tab. 3, p. 23/tab. 4). We should note that the volume of industrial production was 66% higher in 1939 than it had been in 1929.

in any year in the 1930s than it had been in 1929.[6] The increase in industrial and agricultural production did not, however, bring about a proportionate decline in unemployment over the decade. The rate of unemployment within the unionized labour force, for example, rose continuously from 10% in 1929 to 23% in 1933 and, then, declined in the same manner to stand at 9% in 1939.[7] As far as the general level of economic activity is concerned, by mid-decade, national income was already equal to the 1929 mark, from which it had been down by only 13% at the trough of the depression in 1932.[8]

Sweden's experience of the 1930s Depression was mild not only in comparison with most other experiences of the same phenomenon but also in comparison with the 1921-2 depression which it lived through. The 1921-2 depression, during which government economic policy was strictly deflationary, was in fact much more severe than the 1930s depression by all economic criteria including unemployment.[9] In Denmark and Norway, too, the depression of the early 1920s was more severe than that of the 1930s in many respects (excepting unemployment). During the 1930s, one important difference between the Danish and Norwegian crises on the one hand, and

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[6] Olsson (1968, p. 75/tab. 4).

[7] Lindstrom (1985, p. 97/tab. 4.10). See also Jorberg & Krantz (1976, p. 388) for five-year averages from 1926 to 1940.

[8] Compiled from Lundberg (1953/1957, p. 11/tab. 3, p. 23/tab. 4). In 1939, the Swedish national income was 43% higher than it had been in 1929.

[9] For the 1921-2 depression in Swedish economy, see Clark (1941, p. 60); Fridlizius (1963, p. 90/tab. 1, p. 93/tab. 2); Heckscher (1930, pp. 246-9); Jonung (1979a, p. 463); Lundberg (1953/1957, p. 23/tab. 4, pp. 94-7; 1985, pp. 5-6); Montgomery (1938, ch. 2; 1955, pp. 223-33); Thomas (1936, ch. 1).

the Swedish, on the other, was in the area of unemployment. The rate of unemployment within the unionized labour force was consistently higher in Denmark and Norway than it was in Sweden.[10]

The fact that the 1930s depression in Sweden was mild and that recovery from it was quick had to do more with the revival of Swedish exports than with the countercyclical initiatives of the Liberal and Social Democratic minority governments. Innovative as they were, the monetary and fiscal policies of the early 1930s played only a facilitative role in the recovery, rather than constituting the driving force behind it. When the Social Democrats launched a new public works program in 1933 with the clear aim of stimulating demand, the economy had already taken an upturn with the increase in international demand for Swedish export "staples", such as forest products, iron ore, iron and steel, and engineering products.[11] Not until after it became an

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[10] During the 1930s, the rate of unemployment within the unionized labour force reached a high of 32% in Denmark (1932) and of 33% in Norway (1933). As late as 1939, the rate was 18% in both countries (Lindstrom 1985, p. 97/tab. 4.10; also Jorberg & Krantz 1976, p. 388). By most other criteria, however, the Danish and Norwegian depressions were mild and ephemeral. In Denmark, the GNP actually increased throughout the 1930s with the exception of 1932, when it decreased by only 3% (Johansen 1987, p. 46). In Norway, the level of industrial production was 8% higher in 1935 (29% in 1938) than it had been in 1929 (Hodne 1983, p. 86). See also Hanisch (1978) for a general account of the Norwegian depression and recovery.

[11] On this trade-induced, policy-assisted feature of the Swedish recovery, see Arndt (1944, pp. 214-5); Braatoy (1939, p. 45); Clark (1941, pp. 147-53); Dahmen (1950/1970, pp. 41, 405); Jonung (1979a, pp. 485, 492; 1981, pp. 299, 302-3); Jorberg & Kranz (1989, p. 1095); Lindbeck (1974, p. 23); Lundberg (1953/1957, pp. 13, 54-5; 1985, p. 9); Montgomery (1938, p. 66, and chs. 7, 8; 1939, p. 262); Thomas (1936, p. 212); Wilson (1938b, pp. 89-93). For an opposite view which sees the role of the Social Democratic fiscal policies in the recovery as primary, see Moller (1938, pp. 57-63).

orthodoxy in the early post-Second World War period did the macroeconomic innovation of the 1930s began to have an autonomous impact on the direction of the overall economy.

The early upturn in exports was crucial for Swedish recovery since the depression had hit the export sector hardest. Otherwise, over the 1930s, the increase in production (industrial and agricultural alike) was higher than that in export trade. As far as the industrial sector is concerned, industries producing for the domestic market fared better than those producing for the foreign market.[12] One distinguishing feature of the Swedish economy during the period was the strong performance of its agricultural sector, which had been oriented to the domestic market. Following a 26% decline between 1929 and 1933, the price level for agricultural products rose continuously until 1939, when it was 23% higher than it had been in 1929.[13] Moreover, the domestic terms of trade improved significantly in favour of agriculture in the course of the 1930s.[14]

A financial sector which has close institutional ties with the industrial sector is highly vulnerable to crises, especially those of production. Although the Swedish

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[12] For the comparative production indices for home-market and export industries between 1929 and 1934, see Montgomery (1938, p. 33/tab. 4, p. 58/tab. 12). In Norway, by contrast, export industries fared better than home-market industries in the 1930s (Hodne 1983, p. 86).

[13] Olsson (1968, p. 76/tab. 5).

[14] In Denmark, by contrast, the domestic terms of trade deteriorated against agriculture. For five-year domestic (agricultural-industrial) terms of trade averages in Sweden and Denmark between 1926 and 1940, see Jorberg & Krantz (1976, pp. 415-7).

financial sector was of such a type, it did not undergo any major disruption during the 1930s. The reason for this was that the crisis Sweden endured was not only mild and short-term, but also commercial rather than industrial. One exception to the solvency of the financial sector during the period was that the country's second largest bank, SK, had to be "bailed out" by the Liberal government after the "Kreuger crash" of March 1932.[15] Yet this particular financial crisis had its origins abroad, not at home, since the main operations of the collapsed Kreuger group of enterprises, in which the bank at issue had been heavily involved, were located abroad.

Whichever way we approach Swedish depression and recovery, the performance of the foreign economic sector, exports in particular, proved to be the key factor. This requires us to take a closer look at Sweden's trading partners, trade composition, and balance-of-payments position.

In the early 1930s, the Scandinavian countries were orphaned by a newly-protectionist United Kingdom which had readopted the Dominions. The effectiveness of UK protectionism was, however, similar in both cases: neither did the Dominions become part of an integrated Empire "free-trade" bloc, nor were the Scandinavian countries excluded from the UK market. In fact, Sweden, Denmark, and Norway maintained their combined or individual share of the UK market throughout the

[15] On the "Kreuger crash", see Clark (1941, p. 133); Gaitskell (1938, p. 101); Lindgren (1982).

1930s.[16] By devaluing their currencies right after the devaluation of the pound sterling in September 1931, all three countries offset the possible disadvantages of the UK move for their exports. After the United Kingdom opted for a policy of imperial preference in 1932, they were also able to put up a relatively successful fight with the Dominions for the UK market --a result of lower production and transportation costs.[17]

With the exception of Denmark, however, the UK market did not have the same importance to the Scandinavian countries as it did to the Dominions. Denmark differed from Sweden and Norway in the importance attached to its export-oriented agricultural sector which accounted for about three-quarters of total exports.[18] And the chief market for Danish exports was the United Kingdom. During the 1930s, Denmark sent more than 55% of its export commodities to the United Kingdom.[19] There were close parallels between Denmark and New Zealand in their dependency on UK market for their agricultural, primarily dairy, exports. Compared with the other

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[16] The combined share of the three Scandinavian countries in the UK market was 8% both in 1929 and 1938. Ironically, the highest percentage (9) in the meantime was recorded in 1932 (Rooth 1986, p. 63/tab. 2).

[17] On Scandinavian-Dominion (Canadian in particular) competition for the UK market during the 1930s, see Rooth (1988, pp. 275-8).

[18] During 1936-9, for example, 72% of the Danish exports were agricultural, mostly dairy, products (Jorberg & Krantz 1976, p. 406). On the "Danish exception" for Scandinavian agricultural pattern, see Kristensen (1958, p. 204).

[19] For the UK share of Danish exports in selected years, see Jorberg & Krantz (1976, p. 403); Royal Institute of International Affairs (1951, p. 58). For Denmark, the second largest foreign market was Germany which accounted for close to 20% of Danish exports in the 1930s (Royal Institute of International Affairs 1951, p. 58).

Scandinavian countries, Denmark also had a high level of import trade with the United Kingdom. In fact, during the decade, the United Kingdom increased its share of Danish imports to 38% and replaced Germany as Denmark's largest import-trading partner.[20] Among the three Scandinavian countries, Sweden had the lowest level of import trade with the United Kingdom, with Norway occupying an intermediate position. The shares the United Kingdom had in Sweden's and Norway's imports in the 1930s were within the ranges of 14-19% and 20-24%, respectively.[21]

The most trade-dependent economy in the region was Denmark's. In 1929, for example, exports accounted for 28% of the Danish GNP. This compared with 20% and 19% for Sweden and Norway, respectively. Although all three economies experienced some degree of closure during the Great Depression, their ranking in trade dependency did not change, at least, at the level of exports.[22] Featuring the highest levels of agricultural export specialization, and trade- and partner-dependency in Scandinavia, the foreign profile of the Danish economy provides one reason why Denmark developed the weakest form of "historical compromise" in the region. In the case of Sweden, which developed Scandinavia's strongest and most enduring "historical compromise" both in sectoral and class terms, economic openness (or, more

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[20] The UK share of Danish imports rose from 15% in 1929 to 35% in 1938 (38% in 1937), whereas the German share of Danish imports declined from 33% to 25% in the same interval. Compiled from Johansen (1987, p. 61); Rooth (1986, p. 66/tab. 5); Royal Institute of International Affairs (1951, p. 58).

[21] Rooth (1986, p. 66/tab. 5).

[22] In 1938, for example, exports accounted for 20% of the GNP in Denmark; 16%, in Sweden; and 15%, in Norway (Fridlizius 1963, p. 50/tab. 18).

specifically, trade dependency) was not accompanied by partner dependency and single-sector export specialization. In fact, of all economies in the region, Sweden's was the most diversified both in terms of trade partnership and in terms of export and import composition.

In the second half of the 1920s, Sweden had six major export-trade partners. These were, in order of importance, the United Kingdom, Germany, the rest of Scandinavia (including Finland), the United States, the Low countries, and France. On average, Sweden sent 26% of its export commodities to the United Kingdom; 15%, to Germany; 15%, to the rest of Scandinavia; 11%, to the United States; 7%, to the Low countries; and 6%, to France.[23] This pattern did not change radically until after the beginning of the Second World War.[24] From the point of view of imports as well, Sweden had a diffused pattern of partnership. The four major partners to Sweden in its import trade were Germany, the United Kingdom, the United States, and the rest of Scandinavia (including Finland), whose shares of the Swedish market in 1929 were 33%, 17%, 15%, and 11%, respectively. As of 1935, the only notable change in this distribution was the contraction of Germany's share to one-quarter, with the ranking

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[23] Compiled from Fridlizius (1963, p. 63/tab. 24); Lundberg (1953/1957, p. 27/tab. 6); Thomas (1936, p. 174).

[24] In the second half of the 1930s, for example, an average 24% of the Swedish exports went to the United Kingdom; 17%, to Germany; 17%, to the rest of Scandinavia; and 9%, to the United States (Fridlizius 1963, p. 63/tab. 24; Lundberg 1953/1957, p. 27/tab. 6). After the War started, however, this pattern turned upside down. In 1943, the United Kingdom ceased to be an importer of the Swedish goods, whereas Germany imported an exact 47% of them (Fridlizius 1963, p. 66/tab. 26).

among the four remaining the same.[25]

That Sweden maintained its foreign markets in the age of protectionism and neomercantilism had to do with the composition of its exports. Unlike the Dominions and the rest of Scandinavia, a large part of Swedish exports was composed of such raw materials and manufactured goods as iron ore, iron and steel, and engineering products, which were strategically important for the armaments industry among other things and for which alternative sources of supply were extremely limited. Between 1926 and 1938, manufactured goods alone accounted for 45% of Sweden's total exports. This compared with 47% for raw materials and 8% for foodstuffs during the same period.[26] At the level of individual goods, the two notable changes that took place over the 1930s were an increase in the export shares of iron ore, iron and steel, and engineering products, and the decrease in those of timber products, and pulp and paper.[27]

Sweden's imports were even more diversified, consisting of a balanced combination of consumer, intermediate, and capital goods. In 1935, for example, the

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[25] See Cole (1938, pp. 229-30) for both the 1929 and 1935 figures.

[26] Fridlizius (1963, p. 62/tab. 23).

[27] Between the 1930-3 and 1934-8 periods, the share of iron ore in Swedish exports increased from 5% to 10%; iron and steel, from 5% to 7%; and engineering products, from 20% to 21%. Between the same periods, however, the share of timber products in Swedish exports decreased from 17% to 13%; and pulp and paper, from 30% to 28% (Fridlizius 1963, p. 55/tab. 19). See also Cole (1938, pp. 226-9); Montgomery (1939, p. 161) on the export shares of these and other major groups of commodities for selected years in the 1930s. For percentage changes in volume and value of the major export items during the 1929-32, 1932-7, and 1937-8 periods, see Lundberg (1953/1957, p. 26/tab. 5).

share of the single largest item (namely, foodstuffs) in total imports was only 14%.[28] Given this diversification in its imports and exports, and the high levels of demand for its exports, Sweden's terms of trade with the outside world were favourable during the 1930s.[29] Yet, with an expanded domestic market, the Swedish economy, too, had high levels of demand for foreign goods. One indication of this was the uninterrupted trade deficits during the period.[30]

Despite the deficits in its trade balance, Sweden did not experience severe balance-of-payments difficulties even for the duration of the economic downturn in 1930-2. This was mainly because of the fact that, since the First World War, it had been a capital-exporting country with no foreign debt to serve.[31] Income from Swedish capital invested abroad was one of the major "invisible" items which more than offset the trade deficits and, thus, gave way to surpluses in the current account, which would in turn allow further capital exports. The only exception to this general trend occurred in 1931, when an unusually large trade deficit resulted in a current-account deficit as well.[32]

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[28] Cole (1938, p. 231).

[29] For Sweden's terms of trade during the 1930s, see Fridlizius (1963, p. 91/tab. 1).

[30] Fridlizius (1963, p. 91/tab. 1 for exports, p. 93/tab. 2 for imports). See also Kjellstrom (1934, p. 18/tab. 2); Montgomery (1938, p. 35/tab. 5, p. 77/tab. 14) for trade deficits during the 1930-2 and 1930-6 periods, respectively.

[31] On Sweden's favourable balance-of-payments position in the 1930s in relation to its capital-exporting status, see Cole (1938, pp. 231-7); Kjellstrom (1934, ch. 3); Lundberg (1953/1957, pp. 39-40); Montgomery (1938, p. 44/tab. 7).

[32] Kjellstrom (1934, pp. 22-3/tab. 3).

What conclusions can be drawn from the foreign profile of the Swedish economy for state policies in the 1930s? First, it sheds light on the policies followed in foreign trade. On the one hand, free trade (or, at least, the absence of any severe forms of protectionism) in industry had to do with the world-market orientation and competitiveness of the leading groups of industries. Protectionism in agriculture, on the other hand, had to do with the domestic-market orientation of the agricultural sector which had no competitive "niche" in international markets. Secondly, Sweden's foreign economic position played a direct role in taking such currency measures as the departure from the gold standard and the devaluation of the krona. From the point of view of trade dependency, going off the gold standard and devaluing the krona were needed to stimulate exports. Moreover, the fact that Sweden was not a debtor country provided a favourable environment for the Swedish government to take these measures.[33]

A third, and less decisive, role of the foreign economic sector was its impact on domestic monetary and fiscal policies. Sweden's favourable balance-of-payments position facilitated the Liberal and Social Democratic governments to experiment with macroeconomic demand management during the first half of the 1930s. This experimentation occurred, however, despite the disadvantageous conditions of a small open economy for macroeconomic demand management.[34] The fact that such

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[33] For a Canadian-Swedish comparison in this regard, see Liggins (1933).

[34] On the inhibitive role attached to the "small open" economies of Sweden and Scandinavia in general in macroeconomic demand management, see Montgomery (1938, ch. 5); Pekkarinen (1989, pp. 316-8), respectively.

conditions were overcome requires a shift in our focus from the foreign to the domestic profile of the Swedish economy.

THE INDUSTRIAL-FINANCIAL ARTICULATION IN THE SWEDISH ECONOMY

Among those countries with an open economy, large or small, only Sweden experimented with macroeconomic demand stimulation in the 1930s. What distinguished the Swedish economy from all other open economies including those of the rest of Scandinavia, the United Kingdom, and the White Dominions? My answer is: its sectoral and class configuration, which approached the closed mature economies of Europe, particularly of Germany and France. Sweden's Continental-European connection was most evident in its financial system, which favoured close institutional relationships between the industrial and banking sectors. This gave Sweden one of the most centralized and articulated industrial economies in the world. In contrast, the Danish and Norwegian economies had their strength in "artisanal" production and resource extraction, respectively.[35]

Under the German-type financial system, Sweden's commercial banks performed **de facto** investment-banking functions. They established a symbiotic relationship with the industrial sector by extending long-term credits, creating holding

[35] See Esping-Andersen (1985, p. 228) for Sweden; Royal Institute of International Affairs (1951, pp. 49-54) for Denmark.

companies, and creating interlocking directorships.[36] In 1935, the "Big Four" of the country's twenty-eight commercial banks controlled two-thirds of total deposits. The governors of that "Big Four" were in fact "captains of industry and finance" sitting on the boards of close to 400 joint-stock companies which accounted for 80% of the capital resources of all joint-stock companies.[37] The close links between financial and industrial capital had two main bearings on the Swedish experiment in the 1930s. From the macroeconomic point of view, given the cheap-credit requirement of their industrial undertakings, Swedish commercial banks were receptive to monetary reflation, which came after the devaluation of 1931. This fusion of industrial and financial capital had a major impact on the organization of the capitalist class and, indirectly, on that of the working class.

The organizational strength and cohesion of both classes in turn was essential for the "historical compromise" consummated in the 1938 Saltsjobaden agreement between the SAF and the LO. Yet, on the road to Saltsjobaden, both sides had first to resolve the intra-class issues arising from domestic-international differentiation in market linkages. The "internationalist" sections of business initially took a confrontational attitude towards the Social Democratic minority government and the "cow deal" it reached with the Agrarians in May 1933. Most notably, in 1933, five of the largest export-oriented companies formed a pressure group, the "Directors' Club",

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[36] Olsen (1991, p. 125).

[37] Braatoy (1939, pp. 118-20); Gaitskell (1938, pp. 100-2); Kjellstrom (1934, pp. 6-12); Montgomery (1939, pp. 129-30).

to fight the domestic market-oriented agenda of the Social Democrats (and the Agrarians).[38] That export industries would eventually come to terms with the Social Democratic governance and participate in the Saltsjobaden process had to do not only with the central authority of the SAF over the whole industrial business community, but also (and more critically) with the pro-big business evolution in government, party, and union practices of the Social Democrats.

In contrast to the "hawkish" stance of the leading export industries, the SAF leadership and majority, representing home market industries, adopted a conciliatory tone from the start in dealing with the reality of a Social Democratic rule. It took a strike in the construction industry for export and home market industries to iron out their differences in approaching the Social Democratic leadership at the union, party, and government levels. The construction workers, the majority of whom had been organized in the Communist-led unions, went on strike over the question of wage reductions in April 1933, when the Social Democratic minority government was about to strike the famous "cow deal" with the Agrarians to launch a new public works program. The importance of this strike, which ended ten and a half months later in February 1934, lay in the political opposition it drew from the Agrarians and the

[38] The "Big Five" consisted of ASEA, Electrolux, LM Ericsson, Separator, and SKF. On the variation in business attitude towards the Social Democratic government across the home market- and foreign market-oriented industries, see Clarke (1938, p. 128); Gourevitch (1984, pp. 115-7; 1986, pp. 26, 133-4); Gustaffson (1986, ch. 5); Korpi (1978, p. 86; 1982, p. 133; 1983, p. 48); Olsen (1991, p. 130-1).

Social Democrats, and, economically, from the SAF and the LO.[39] Employers and unions in the export industries, including the "Directors' Club" and the Metal Workers' Union, took the lead in opposing what they considered to be "high-wage" demands of the strikers in an already sheltered industry. Under pressure from (and in alliance with) the government, the SAF, and the Metal Workers' Union, which was the largest LO affiliate, the LO would enjoin the construction unions to call off the strike.

In their response to the construction workers' strike, the SAF and the LO practiced the first rehearsal of the Saltsjobaden agreement. The balance of power tilted towards the export sector in both federations, meaning towards "big business" and "big labour". Moreover, this alliance of employers and workers in the export sector prefigured the future shape of SAF-LO relations, which would be sealed in the Saltsjobaden agreement.[40] The policy of wage-levelling (or of wage solidarity) was indicative of the general move of the LO to the long-time SAF practice of centralized decision-making. Centralization was a necessary condition for the leaders of the two federations to enter into a "statesmanlike" relationship without involving the state.[41]

We should also do justice to the role of Social Democratic party politics and government policy in the formation of the Saltsjobaden coalition. After increasing its electoral strength in 1936, the SAP returned to power by forming a majority

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[39] On the building workers' strike, see Johnston (1962, pp. 31-5); especially Swenson (1989, pp. 43-53).

[40] Swenson (1989, pp. 49-50).

[41] On the role of centralization and leadership in the SAF-LO relations during the 1930s, including the Saltsjobaden process, see Johnston (1962, pp. 35-6, 164-5, 169-75).

government with the Agrarian Party. Resigning themselves to the political prospect of living with "socialism" for some time to come, the large employers went ahead with a policy of centralized negotiations with the unions. The new coalition government also provided them with a main incentive towards this end. The corporate tax reforms of 1938, for example, discriminated in favour of the largest and most profitable corporations, that were concentrated in the export sector.[42]

It would be inadequate to define the Saltsjobaden agreement as a compromise between labour and capital in general or even between the LO and SAF in particular. Unlike the Social Democratic-Agrarian "cow deal" of 1933, which was struck under crisis conditions to help the weaker sectors of society (such as the unemployed and small farmers), the Saltsjobaden agreement concluded in late 1938 by the LO and the SAF was a long-term, "basic" framework for the mutual relations of the strongest sectors of the society. As they worked towards a cross-class compromise, the two federations further increased their respective class power, both organizationally and in terms of policy effectiveness.

The largest increase in class power occurred on the labour front. Union membership (read: the LO membership for all intents and purposes) almost doubled over the 1930s.[43] The rate of unionization among all wage earners increased from

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[42] For the corporate tax reforms of 1938, see Steinmo (1988, pp. 420-2).

[43] The LO membership increased from 553,000 in 1930 to 971,000 --about three-quarters of whom were organized along industrial unionism-- in 1940. Membership in those unions which were not affiliated with the LO increased from 50,000 to 72,000 in the same interval. For union membership in Sweden, see Esping-Andersen (1985, (continued...)

36% in 1930 to 50% in 1940.[44] With the political wing of the Social Democratic labour movement being in office, the LO also became increasingly influential in policy-making processes during the period. The two Social Democratic initiatives which placed the LO at the centre of an "active" labour-market policy were the introduction of a voluntary, union-administered unemployment insurance scheme in 1934 and the establishment of the Labour Market Board, AMS, in 1939 (and abolition of the Unemployment Commission, AK, later in 1940).[45] Although deprived of the advantages of a "bourgeois" government, the employers, too, gained from the Social Democratic policies and from the politics of compromise. The membership and, more importantly, work-force of the SAF increased significantly in the Social Democratic 1930s.[46] Likewise, the SAF was entitled to sit on the AMS on an equal footing with the LO.

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[43](...continued)
p. 64/tab. 2.5); Johnston (1962, p. 30); Lindstrom (1985, p. 97/tab. 4.10); Scase (1977, p. 28/tab. 1.7). During the 1930s, two white-collar confederations were established in Sweden: one was the DACO (Central Organization of Employees, 1931), which organized the salaried employees in the private sector, and the other being the TCO (Central Organization of Salaried Employees, 1937), which organized those in the public sector. These two confederations would join forces in 1944 to form a single white-collar confederation (TCO).

[44] Esping-Andersen (1985, p. 64/tab. 2.5). The corresponding (1930 and 1939-40) rates of unionization among the active labour force were 20 and 36% (Stephens 1979, p. 115/tab. 4.8).

[45] For the institutional, class-organizing effects of these two developments on the Swedish union movement, see Rothstein (1990, pp. 333-5).

[46] The membership and work-force of the SAF increased from 3,224 and 259,000 in 1932 (from 2,731 and 310,000 in 1930) to 5,673 and 426,000 in 1939, respectively and in the same order (Lindstrom 1985, p. 70/tab. 4.2).

Another entitlement which the employers won was industrial "peace". During the seven years of Social Democratic rule between 1933 and 1939, there was a marked decline in the number and volume of industrial conflicts (strikes and lockouts).[47] Conversely, the number and volume of collective agreements increased markedly and progressively during the same period.[48] The Saltsjobaden agreement of December 1938 capped an era of historical developments in Swedish labour relations, which had begun with the bloody suppression of the Adalen strike by government troops in September 1932.

The Danish and Norwegian experiences in industrial relations during the 1930s were very different from those of Sweden. Although both Denmark and Norway approached Sweden in terms of the rise in union membership, rate of unionization, and membership and work-force associated with employers' federations, neither of these countries made the breakthrough in reducing industrial conflict that Sweden did.[49] In Norway, the level of labour militancy and industrial conflict ironically escalated after 1935, when the Labour Party formed a minority government with the help of the Agrarians, and when the Norwegian LO and employers' federation struck a "basic" agreement. In Denmark, on the other hand, the 1930s made no difference in business-

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[47] For Swedish industrial-conflict statistics, see Hansson (1939, pp. 37-8); Lindstrom (1985, p. 97/tab. 4.10); especially Mitchell (1975, pp. 177, 182).

[48] Hansson (1939, p. 42); Skogh (1938, p. 44).

[49] For the comparative position of the three Scandinavian countries in unionization, employers' organization, and industrial conflict, see Esping-Andersen (1985, p. 64/tab. 2.5); Lindstrom (1985, p. 70/tab. 4.2, p. 97/tab. 4.10).

labour relations, partly because the Danish LO and employers' federation had been living with a "Saltsjobaden" of their own since 1899.

Denmark and Norway differed from Sweden also in terms of labour-agrarian relations. Compared with the Swedish "cow deal", the Danish and Norwegian crisis agreements were soft in the commitment they got from the Social Democratic/Labour and Agrarian parties. With the most diversified and most articulated economy in Scandinavia, Sweden came up with the strongest cross-class and cross-sectoral alignments in the region.[50] In the other two cases, alignments of this nature took on a weaker form under the conditions of a more specialized economy whose driving sector was something other than manufacturing. Both the agriculturally-based Danish economy and the resource-based Norwegian economy were at a relative disadvantage for providing linkages between sectors.[51]

During the 1930s, Sweden produced the "model" Scandinavian experiment in both state policies and civil alignments. And it did so under conditions of a mature industrial economy, which were not typical for Scandinavia. Taking a broader view of Swedish history, we can state that the experiment of the 1930s took place against a economic background whose institutional features had been shaped before the 20th

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[50] On the features of Sweden's agricultural sector, especially high levels of cooperation among the independent farmers both as producers and consumers, see Bonow (1938); Braatoy (1939, pp. 120-4); Childs ([1936] 1947, chs. 1, 11); Skilbeck (1938, pp. 146-51, 159).

[51] For a comparative review of the class and sectoral features of the three Scandinavian economies, see Lindstrom (1985, ch. 4).

century. To be more precise, the agricultural, industrial, and financial foundations of this experiment were mainly a legacy of the 19th-century transformation. In what follows we will touch briefly on the alignment-policy configuration of the previous century's economic transformation.

The "Great Transformation"

The most distinguishing aspect of the Swedish historical experience was that peasants became the victors, not the victims, of industrial development. Even before the building of a nation-state under the absolutism of the 16th century, the Swedish peasantry had been free from serfdom, if not from feudalism in its broader sense.[52] During the absolutist period, the small-holding and tax-paying peasants became a major political force, which was enough to win them "fourth estate" status in the Assembly of Estates, the Riksdag, after the nobility, clergy, and burghers. All categories of peasantry, tenants and owners alike, however, experienced a serious setback in the first half of the 17th century when crown lands (which had been acquired through the expropriation of the Church in the 16th century) and taxes on peasant-owned lands were sold or, as it was best known, "alienated" to the nobility.

[52] At the closure of the Middle Ages, for example, half of the cultivated land was occupied by independent, small-holder peasants. On the status of Swedish peasantry during the late Middle Ages and the absolutist period, see Anderson (1974, ch. 7 in part 1); Heckscher (1932; 1941/1954, ch. 3, and pp. 117-28); Roberts (1967, chs. 1, 2, 5, 8); Samuelsson (1968, pp. 46-62); Scott (1977, pp. 216-20); Wallerstein (1974a, pp. 312-3; 1980, pp. 203-21).

This setback proved temporary since, in the following half-century, a reassertive absolutist monarchy eliminated the gains of the nobility with a crash program of reversion ("reduktion").

The final consolidation of independent peasant-farming in the rural structure took place from the mid-18th to mid-19th century. The state-imposed "enclosure" movement of this period transformed the concentrated village communities based on small, scattered farming units into the scattered rural settlements based on concentrated, larger farming units.[53] This gave a big spurt to agricultural production, which in turn prepared the home-market base of the industrial "revolution" of the late 19th century.

The legacy of absolutism was not limited to the creation of a sophisticated nation-state machinery, and the consolidation of an independent class of farmers. Another legacy was proto-industrialization under mercantilism. During the 17th and especially 18th centuries, which corresponded to Sweden's "Great Power" and "Liberty" eras, respectively, the state implemented a vigourous policy of mercantilism.[54] Included in this policy were import (and, in some cases, export) prohibitions, the establishment of overseas trading/colonizing companies, and the protection of, and incentives for, local handicrafts/manufactures based in rural

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[53] On Swedish "enclosure" movement, see Dahl (1961); Gustavson (1986, ch. 1, and p. 150); Heckscher (1941/1954, pp. 150-73); Scott (1977, pp. 288-92).

[54] On the mercantilism of the "Great Power" and "Liberty" eras, see Drachmann (1915, pp. 33-7); Gustavson (1986, ch. 3); Heckscher (1941/1954, pp. 79-115, 173-208); Oakley (1966, ch. 15); Roos (1976); Samuelsson (1968, pp. 71-111); Scott (1977, ch. 7, and pp. 259-67).

communities.[55] It was the processing and exporting of the mineral resources, first copper and then iron, however, that carried the Swedish economy in the age of mercantilism.

In transition to mercantilism by the early 17th century, Sweden was a close follower of the United Provinces (the Netherlands) as the hegemonic power of the period. Similarly, it became a close follower of another hegemonic power, the United Kingdom, in transition to liberalism and free trade by the mid-19th century. From the 1820s onwards, Sweden began to remove mercantilist restrictions on foreign trade.[56] By the late 1850s, Swedish commercial policy was in full unison with the free-trade doctrine, relying on relatively low tariffs both in agriculture and industry. Sweden capped the era of free trade by adopting the gold standard in 1873 and by establishing a monetary union with its junior "dynastic" partner, Norway, and Denmark in 1875.[57]

From a domestic point of view, mid-century developments were a prelude to the industrial "revolution" which occurred during the world economic crisis of 1873-

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[55] It is interesting to note that Sweden experimented with paper money for a short period of time after laying the foundations of the Riksbank in the form of a commercial state bank in 1656. This commercial institution was transformed into the Bank of the Estates of the Realm in 1668.

[56] Drachmann (1915, pp. 38-48); Heckscher (1941/1954, pp. 236-40); Jorberg & Kranz (1989, pp. 1057-8).

[57] The Scandinavian monetary union lasted until 1914, when all three countries left the gold standard (Heckscher 1930, pp. 127-31; 1941/1954, pp. 252-4).

On this point, we should also mention the "dynastic" union between Sweden and Norway. For its loss of Finland to Russia in 1809, Sweden was "compensated" with Norway in 1814. The "union", which lasted until 1905, was "dynastic" in the sense that it did not have any political entity other than a king residing in Sweden. The only economic achievement of the "union" was the establishment of the customs union in a few categories of goods. On this, see Lindgren (1959, esp. pp. 37-43).

96.[58] First, the state created the preconditions of a free and skilled labour force by removing guild restrictions and by introducing universal primary education. Added to this was the elimination of the possibility of severe surplus-labour problems by the beginning of a massive tide of emigration to the United States in the 1860s. Secondly, driven by favourable state policies, the countryside came to play a larger economic role, both agriculturally and industrially. On the one hand, there was the commercialization of agriculture which changed Sweden from an importer to exporter of grains. On the other hand, out of the landed nobility emerged an industrial class of "iron (and timber) masters", whose operations were based in the rural areas. A third legacy of the "liberal" period was the launching of railway-building by the state in 1856. Fourthly, the state instituted an investment-oriented, private banking system which would prove crucial for the financing of industries. And finally, we should mention a series of technological inventions which were made before the onset of full-speed industrialization in the 1870s.

The fact that close to three-quarters of the population were still living in the countryside as late as 1870 indicates that the industries which arose during mid-century were rurally based. It was only after 1870 that Sweden began to establish an urban and concentrated industrial base. The rapid pace of industrialization in the last three decades of the century corresponded to the first Great Depression and the rise of

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[58] On the creation of a favourable institutional setting during the mid-19th century for Swedish industrialization, see Castles (1973); Esping-Andersen (1985, ch. 2); Gustavson (1986, ch. 9); Heckscher (1941/1954, ch. 6); Ildebrand (1978, pp. 597-614); Jorberg (1975, pp. 101-9); Montgomery (1939, ch. 2); Ohlin (1939, pp. 46-9); Samuelsson (1968, ch. 6); Scott (1977, 458-61); Tilton (1974).

Germany as a world power. These two world-historical events meant for Sweden a shift from free trade to protectionism and from the British to German sphere of influence.

Following the onset of the world economic crisis in the mid-1870s, Sweden entered a period of "tariff struggle", which would end with the victory of protectionism late in the 1880s.[59] Although this struggle cut across sectors, its outcome was determined by the agricultural sector. After the crisis hit agriculture in the early 1880s, protectionism held sway in the agrarian-dominated Riksdag, which had been transformed from an assembly of estates into a bicameral parliament in 1866. A cross-class alliance of the large estate owners, who dominated the First Chamber together with the other sectors of aristocracy, and the majority wing of the Farmers' Party, which dominated the Second Chamber, was instrumental in bringing about the protectionist tariff schedule of 1888 for agricultural products. Four years later, a similar tariff schedule was introduced for industrial products. With grain exports coming to an end in the meantime, protectionism was becoming a permanent feature of Swedish agricultural policy.[60]

For industry, however, protectionism would hold only until the First World

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[59] On the "tariff struggle" of the 1870s and '80s, see Drachmann (1915, pp. 49-82); Gourevitch (1986, pp. 113, 132); Heckscher (1941/1954, pp. 257-9); Jorberg & Kranz (1989, pp. 1055, 1061-2); Kuuse (1971); Montgomery (1939, pp. 145-50); Scott (1977, p. 397).

[60] The share of grain in Swedish exports declined from 12% in 1881/85 to a virtual 0% in 1911/13 (Fridlizius 1963, p. 12/tab. 2, p. 30/tab. 9). The export share of foodstuffs in general declined from 24% in 1881/85 to 12% in 1906/10 (Fridlizius 1963, p. 8/tab. 1, p. 31/tab. 10).

War. By the time the War broke out, Swedish industries had already made a breakthrough in world markets.[61] In this sense, we can speak of a completed "mission" on the part of industrial protectionism, which had risen ironically on the political strength of the agrarians --the landed aristocracy and independent farmers alike. Industries such as iron-and-steel and pulp-and-paper made great strides during the protectionist period.[62] Moreover, the "high-tech" and export-oriented engineering industries (including the "Big Five" firms which would be in the political forefront in the 1930s through the "Directors' Club") were a product of this period. Although Swedish industrialization took off late, it came with a big spurt and high levels of concentration.[63]

A comprehensive railway-building program formed part of the industrialization drive of the late 19th century. From the early 1870s on, the state began to borrow heavily from abroad to build new railways. Although private builders increased their share of total mileage in the years to come, the state continued to hold and operate the key lines, and to oversee the construction of private lines according to an overall

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[61] As early as the 1900s, for example, Sweden's engineering industries carved a niche in foreign markets and began to make foreign direct investment. For a detailed account of this with special reference to the Russian market, see Kuuse (1977, esp. pp. 12-7, 32).

[62] Dahmen (1950/1970, ch. 2); Heckscher (1941/1954, pp. 224-32); Scott (1977, pp. 446-9).

[63] On industrial concentration in Sweden during the late 19th and early 20th centuries, see Jorberg (1961, ch. 5; also 1975, pp. 118-24).

plan.[64] This level of state entrepreneurship in the building and operation of railways was unusually high in the Swedish context. As far as the rest of the economy is concerned, the state did not assume any major entrepreneurial functions during the industrial transformation. It did, however, play an indispensable role in this transformation by helping private industries to take off through tariffs and other incentives and, more critically, by instituting an industrially-oriented financial system along German lines.[65]

What characterized the Swedish economy in its domestic and foreign profile during the 1930s emerged out of the "great transformation" of the late 19th and early 20th centuries. Before the First World War began, Sweden ceased to be a capital importer.[66] Likewise, trade dependency or openness in general became an established feature of the economy between the Great Depression of 1873-96 and the First World War.[67] While the agricultural sector turned increasingly inward, the extractive and

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[64] On railways, see Gustavson (1986, pp. 129-32, 167); Hildebrand (1978, p. 606); Jorberg (1973, pp. 440, 443); Montgomery (1939, p. 124); Samuelsson (1968, p. 161); Scott (1977, pp. 444-6). Gordon Laxer (1988; especially 1989, ch. 3) compares the Swedish and Canadian railway policies within the larger context of industrialization.

[65] It is also worth noting that the Riksbank was transformed into a full-fledged central bank at the turn of the century. See Samuelsson (1958) on developments in banking. For a comparative study of the Swedish (German-type) and Canadian (British-type) financial systems in terms of their divergent consequences for industrialization, see Laxer (1989, pp. 94-111).

[66] During the First World War, Sweden began to export capital (Heckscher 1930, pp. 179-220; Hildebrand 1978, pp. 615-20).

[67] For example, the share of exports in the GNP increased from 18% in 1870 to 22% in 1913 (Fridlizius 1963, p. 29/tab. 7). For exports-GDP ratios from 1869-78 to 1904-12, see Jorberg (1961, p. 27/tab. 2.9).

manufacturing industries were internationally-oriented and had been from their beginnings. The diversification of the export sector brought about new trading partners, especially Germany, for Sweden and, thus, made it less dependent on the UK market.[68]

The development experiences of the other two Scandinavian countries differed from Sweden's and from each other as well.[69] By the standards of the region, Denmark was an early-comer in economic and social development. From the mid-19th century on, it emerged as a bastion of free trade with strong ties to the United Kingdom. By specializing in export-oriented agricultural production, the Danish economy became the most trade-dependent economy in Scandinavia.[70] Moreover, agricultural-export specialization was instrumental in shaping a "craft" pattern of industrialization based on the production of light consumer goods bound mainly for the domestic market.[71]

As a late-comer, Norway stood at the other end of the Scandinavian spectrum. By most accounts, the Norwegian economy was a prototype of underdevelopment with

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[68] Between 1881-85 and 1911-13, Germany's share in Swedish exports increased from 8% to 22% whereas the United Kingdom's share decreased from 51% to 30% (Fridlizius 1963, p. 21/tab. 3, p. 41/tab. 14).

[69] On industrialization in Scandinavia, see Hildebrand (1978); Jorberg (1973).

[70] During 1910-14, for example, agricultural products accounted for 87% of the Danish exports (Jorberg 1973, p. 412). Between 1875-79 and 1905-09, the share of exports in the GNP increased from 23% to 28%; and the share of imports, from 31% to 37% (Jorberg 1973, p. 458/tab. 30).

[71] Jorberg (1973, pp. 406-15).

its "enclave" urban sector surrounded by a technically backward rural sector which did not produce enough surplus to feed the urban population. What carried the export sector was first the fisheries until the end of the 1860s and then overseas shipping.[72] In contrast to Sweden and Denmark, Norway emerged from its 19th-century development experience with high levels of foreign ownership especially in the extractive and manufacturing sectors.[73]

As of the 1930s, there was no change in the relative economic position of the three Scandinavian countries. The intra-regional economic variation remained as wide as it was at the turn of the century. Despite this, all three countries of the region converged politically. The Social Democratic convergence in Scandinavia rose on the basis of a set of secular and cyclical developments. One of the secular developments, which came after the initial period of industrialization, was the "civil" organization of the labour and capital.

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[72] Up to the end of the 1860s, fisheries accounted for about 45% of the Norwegian exports; later on, ocean shipping emerged as the chief earner of foreign currency, which in 1915 accounted for 40% of the total value of exports (Jorberg 1973, pp. 403, 430 respectively). Between 1875-79 and 1905-09, the share of exports in the GNP increased from 14% to 17%; and the share of imports, from 22% to 28% (Jorberg 1973, p. 458/tab. 30).

[73] For the rates of foreign ownership in specific industries in 1909, see Jorberg (1973, p. 434). For a comparison of the foreign ownership in Norway with the case of Canada, see Kresl (1988).

Towards the Politics of Industrial Relations

The chief players in Swedish industrial transformation during the late 19th century were the independent farmers and a compact aristocratic "oligarchy" composed of large landowners, rural-urban industrialists, and bureaucratic officeholders. Whereas farmers dominated the popular Second Chamber of the Riksdag, the "oligarchy" dominated the aristocratic First Chamber and, more critically, the state. Absent from the political scene was an autonomous initiative on the part of either workers or employers. Not until the turn of the century would these two classes emerge as autonomous players in Swedish industrial life.

From the point of view of labour, late industrialization necessarily meant late mobilization. This was attested to by the fact that the first notable industrial strike in Sweden took place in 1879. It was, however, the foundation of the Social Democratic Labour Party (SAP) in 1889 that marked the real beginnings of an organized labour movement. Nine years later, Social Democratic unionists founded the LO as a federation of predominantly craft-based unions. Shortly after taking off the ground, the LO revised its relations with the SAP and its principle of unionism. On the one hand, in 1900 it changed its formal and national affiliation with the SAP to an informal and local affiliation between the branches of the member unions and those of the SAP.[74] On the other hand, in 1906 it officially adopted industrial unionism as an alternative

[74] Blake (1960).

to craft unionism which had, in fact, been in decline since the late 1890s.[75]

At the turn of the century, the LO became increasingly active in promoting the cause of political democracy. However, the class-organizing effect this activism had was more on employers than on workers. What prompted the employers to found the SAF (and the VF, Engineering Employers' Association) in 1902 was an unsuccessful general strike organized by the LO for universal suffrage earlier the same year.[76] In comparison with the LO, the SAF acquired a more centralized organizational structure and adopted a more aggressive class line from the start. This difference proved decisive for the fate of the next general strike in 1909 --the "Great Strike" which involved more than 300,000 workers and, as such, went down in Swedish history as the largest industrial conflict. The strike ended as it started according to the "timetable" of the SAF. After having the LO called the strike through a successful policy of escalating a series of small disputes, the SAF declared a "general lockout", which in turn forced the LO to call off the strike. Thus, through the "Great Strike", the SAF dealt a major blow to the LO in terms of membership, organization, and political appeal. After 1909, the two federations "never met until 1938", i.e. until Saltsjobaden.[77]

The two sides had, however, met before 1909 for reasons other than industrial

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[75] Johnston (1962, pp. 23-9).

[76] On LO-SAF relations during the pre-First World War period, see Gustafsson (1986, pp. 28-31); Johnston (1962, pp. 68-91); Kjellberg (1992, pp. 94-5, 98); Korpi (1978, ch. 3); Montgomery (1939, pp. 202-9); Scott (1977, pp. 412-9).

[77] Gustafsson (1986, p. 30).

confrontation. In 1905, the VF and the Metall (Metal Workers' Union), as the affiliates of the SAF and the LO, respectively, concluded an "Engineering compromise" which introduced a **de facto** collective agreement in the metal industry on a national scale. Moreover, following the passing of the Mediation Act in 1906, the SAF and LO cut an all-sectoral deal, the "December compromise", later the same year.[78] In its recognition of the workers' rights to organize and strike, and of the employers' to direct the work and lock out the workers, the "December compromise" can in fact be seen as a first rehearsal of the Saltsjobaden agreement. During the long interlude between the all-out confrontation of 1909 and the beginnings of the negotiations for Saltsjobaden in the mid-1930s, the locus of social and industrial initiatives shifted towards the state, with the SAF becoming increasingly influential and the LO opting for a policy of withdrawal.

During this interlude the state took some critical steps in the area of the labour market.[79] From an institutional point of view, the establishment of the Unemployment Commission, AK, in 1914 marked the beginnings of a national labour-market policy. The work-centred relief approach that the AK adopted early in the war years proved to be crucial for easing the problem of unemployment first during the depression of

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[78] Johnston (1962, pp. 139-44).

[79] As for social policy, two innovations were made: the old age pensions (1913) and the eight-hour working day (1920). See Heclo (1974, pp. 178-95) for old-age legislation; Kuhnle (1978) for other social-policy developments.

1921-2 and later, as we saw, during the depression of the early 1930s.[80] In 1924, the AK became the sole state agency responsible for all types and levels of unemployment relief programs. For the SAP and especially the LO, however, it always remained controversial, since it organized the relief ("reserve") works on such anti-union principles as fixing wages below open-market rates, banning relief workers from taking strike action, and using the same workers in strike-ridden industries. In fact, of the three Social Democratic minority governments formed during the 1920s, two fell precisely because of the disputes over these anti-union policies of the AK.

Nevertheless, the early institutionalization of the work-centred relief approach, together with the early establishment of unemployment funds by the large unions, prefigured the type of unemployment insurance that the Social Democrats would introduce in 1934. During the first three decades of the century, a German-style (compulsory, state-administered) unemployment insurance program was considered but not accepted in the face of the "work approach" adopted by the AK and the unemployment funds established by the large unions.[81] Under these circumstances, the Ghent-style (voluntary, union-administered) program emerged as the "logical" option. Yet it, too, was rejected, because the "bourgeois" parties rightly reasoned that it would further strengthen the unions.[82] The coming to power of the Social

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[80] On the activities of, and controversy over, the AK from the First World War to the Great Depression, see Braatoy (1939, p. 28); Clark (1941, chs. 2-4); Heclo (1974, pp. 92-9); Jorberg & Kranz (1989, pp. 1075-84); Wilson (1938b, pp. 82-3).

[81] Clark (1941, pp. 125-6).

[82] Heclo (1974, pp. 70-8, 90-2).

Democrats, who had no reason to fear the strength of the unions, finally cleared the way for this style of unemployment insurance program.

A last major "bourgeois" legacy in the area of labour-market regulation was the legislation on Collective Contracts and Labour Court in 1928.[83] Although opposing the legislation, the LO reaped the fruits of it later under friendly Social Democratic governments. When the LO and SAF sat down to reach a "basic agreement" in 1936, they had not only antecedents (the Engineering and December compromises in 1905-6) to draw on, but also a complete set of legal and institutional arrangements in the areas of labour market and industrial relations. However, what made them sit down to talk after almost thirty years was the changing world-historical and domestic-political climate of the time.

Domestically, the most significant change of course was the rise of the Social Democrats to political power in 1932. With the political wing of the labour movement in power, the LO and, more critically, the SAF were convinced, if not enforced legally or administratively, to compromise. The Social Democratic dimension of the Swedish experiment is one of the major themes we take up in the next section.

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[83] On the Collective Contracts and Labour Court Acts of 1928, see Johnston (1962, pp. 144-63).

THE POLITICAL FOUNDATIONS OF THE SWEDISH EXPERIMENT

This section revolves around the political components of Sweden's protofordist experiment during the 1930s. In the first place, I examine political-party composition by paying special attention to the ideological and political innovation that had taken place within the Social Democratic Labour Party, SAP, prior to the Great Crash of 1929. In the second place, I examine the corporatist regime and centralized state characteristics of the Swedish polity. At the political-regime level, I highlight the tradition of estates organization and the introduction of proportional representation, early in the 20th century, which would shape the political rules of the policy-making game. It is important to note that the similarities between Sweden, on the one hand, and Denmark and Norway, on the other, were much more conspicuous in political-regime terms than they were in any other terms.

Social Democrats and the Split "Bourgeois Bloc"

The social democratic, socialist, and labour parties that governed during the 1930s can be divided into two main groups. On the one hand, there were the Social Democrats in Germany, and Labourites in the United Kingdom and Australia, that did not break with procyclical orthodoxy when governing and left office in disarray. On the other hand, parties as diverse as the Scandinavian Social Democrats, NZ Labourites, French Socialists, and even US Democrats took an innovative course and

enjoyed high levels of popular support. Within this last group, the Scandinavian Social Democrats stood out in terms of the alliances they entered with the Agrarians, the compromises they facilitated between the union and employers' federations, and the welfare states they began to build.

The SAP of Sweden was undisputably the exemplar of Social Democratic innovation in Scandinavia and, thus, in the world. How did it come to occupy such a position? To begin with, the timing of its coming to power was propitious. Unlike the German, UK, and Australian parties, it had the luxury of being in opposition during the initial and most difficult years of the economic crisis.[84] Among the parties of innovation mentioned above, only the Danish party was in power when the crisis hit. It was also the Danish party that proved the least innovative among these parties. For the SAP and other late-comers, the advantage was in terms of drawing "lessons" from the experiences of the early-comers, which had to cope with the unprecedented problems of a new crisis.

Drawing "lessons" is not, however, simply an epistemological process. It is constrained by political and ideological preferences. The leadership of the German Social Democratic and UK Labour parties, for example, continued to resist the idea of demand stimulus long after deflationary orthodoxy proved no cure for the crisis.[85] In contrast, Social Democratic leadership in Sweden embraced the very same idea as

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[84] On this advantage of the SAP over the German Social Democratic and UK Labour parties, see Gourevitch (1986, p. 133); Winch (1989, pp. 118-24).

[85] Martin (1979); Stephens (1979, p. 145); Winch (1969, p. 209).

early as 1928. After suffering an electoral defeat earlier that year and after experiencing three unsuccessful minority governments still earlier in the 1920s, the SAP removed socialization and deflation from its policy agenda and put a reflationary program of work creation in their stead.[86] For Social Democratic politicians and theorists, this change of policy emphasis from the supply (production) to demand (consumption) side was part of a political renewal --a shift from the "ghetto" project based on a zero-sum game strategy to the "people's home" project based on a positive-sum game strategy.[87]

It is ironic that in opting for demand stimulus Swedish Social Democrats drew on the UK Liberals and Keynes, who had been waging an unsuccessful struggle for

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[86] For Herbert L. G. Tingsten (1941/1973, esp. pp. 115-341) and Richard F. Tomasson (1969), this change of policy course in 1928 initiated the final part of the progressive "de-marxization" of the SAP's economic and social platform --a process which had been underway since the late 1890s.

[87] Per Albin Hansson, Gustav Moller, and Ernst Wigforss stood out within the new generation of leadership, who would carry the SAP to political power in 1932 after reforming it in the late 1920s. Hansson, Prime Minister (after 1932), was the architect of the "people's home" project. Moller, Minister of Social Affairs, was the chief person responsible for such programs as unemployment relief, public works, and labour market in general (see his 1938 article for his narrative of the Swedish experiment). It was Wigforss, Minister of Finance, however, who conceived of a "proto-Keynesian" proposal out of the Marxian notion of underconsumption and convinced the SAP to adopt this as its policy stance in 1928. With Wigforss at the helm of finance, the Social Democratic government would launch a new program of deficit spending in early 1933 (to read about this directly from him, see his 1939 article). On the Social Democratic breakthrough in policy and politics of the late 1920s and early 1930s, see Arndt (1944, p. 219); Castles (1978, p. 25); Esping-Andersen (1985, p. 22); Esping-Andersen & Friedland (1982, p. 17); Eyerman (1985); Gustafsson (1986, p. 41); Heclo (1974, pp. 99-100); Higgins (1985, pp. 222-31); Jorberg & Kranz (1989, pp. 1098-9); Korpi (1978, pp. 80-6, 320; 1982, pp. 130-4; 1983, pp. 46-50); Lewin (1975, pp. 285-7); Martin (1979, pp. 88-100); Olsson (1991, pp. 148-53); Stephens (1979, pp. 128-40); Tilton (1979).

monetary and fiscal expansion since the early 1920s. To achieve the same goal, the Swedes made a pragmatic use of the Marxian notion of underconsumption, which had led most parties of the Second (not to mention the Third) International to a millenarian passivity under capitalism. Above all, there was the "proto-Keynesian" Stockholm School of Economics as an indigenous source of inspiration for any party willing and able to innovate.[88] In the Swedish context, economists not only inspired policy-makers but also did practical work for them. A group of monetary economists actively cooperated with the Riksbank to launch a policy of "price stabilization" following departure from the gold standard in September 1931. Likewise, economists associated with the Stockholm School of Economics played more than an advisory role in the process leading up to the Social Democratic budget bill of January 1933, that proposed a deficit-financed public works program.[89]

Also included in the budget bill of January 1933 were proposals for the abolition of the AK, the liquidation of relief ("reserve") works, and the creation of a new labour-market agency. Thus, for Social Democrats, the bill came to mean the culmination of a series of programmatic and legislative initiatives dating back to the late 1920s.[90] Since they were a minority government, however, they needed the

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[88] On the relationships between the Stockholm School of Economics, Social Democrats, and Keynes/UK Liberals, see Gustafsson (1973); Heckscher (1953); Jorberg & Kranz (1989, p. 1090); Lindbeck (1974, ch. 5); Patinkin (1978); Samuelsson (1975); Uhr (1973); Winch (1966).

[89] On the role of the economists in Swedish policy-making during the 1930s, see Jonung (1979a; 1979b; 1981, pp. 287, 299, 309-10); Lundberg (1953/1957, pp. 108-23; 1985, pp. 6-12); Thomas (1936, ch. 6); Uhr (1977).

[90] Braatoy (1939, ch. 1); Clark (1941, ch. 10); Heclo (1974, pp. 100-5).

support of any of the three "bourgeois" parties --Conservatives, Liberals, or Agrarians-- to pass the bill in the Riksdag. And there was no "bourgeois" support forthcoming.

It took some six months and a "cow deal" with the Agrarians to pass a watered-down version of the original bill. Under the new legislation, the AK and the relief ("reserve") works program it administered continued albeit in modified form. The proposed public works program was scaled down and no new labour-market agency was created.[91] For the Social Democrats, the "cow deal" came with another price: they accepted protectionism in agriculture, both domestically and internationally. As a party representing the consumers of foodstuffs, mainly urban workers, the SAP had been the staunchest defender of free trade in agriculture since the 1890s. What was at stake in mid-1933, however, was the future of its general political project, as well as of its fiscal and social initiatives. Therefore, it gave in to the protectionist demands of the Agrarian Party, which represented the producers of foodstuffs, middle farmers in particular.[92]

The "cow deal" between the two parties was an issue-specific, piecemeal "crisis" agreement as it was formally called. This became evident in the selectiveness of the Agrarian parliamentary support to the Social Democratic minority government

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[91] As we mentioned in Chapter 3, the creation of the new labour-market agency, Labour Market Board (AMS), and the abolition of the Unemployment Commission (AK) would wait until the end of the 1930s.

[92] See Luebbert (1987, pp. 460-5) on the crucial role of the resolution of the conflict between the producers and consumers of foodstuffs in the emergence of the worker-farmer alliances in Scandinavia in general. For a review of the SAP's attitude towards the farmers and rural workers in the 1910s and 1920s, see Back (1964, esp. pp. 59-65).

after 1933. Thus, Agrarians did not support the Unemployment Insurance legislation of 1934, which was only enacted with Liberal support. Moreover, they were instrumental in the resignation of the government in June 1936, when they joined forces with the Conservatives and Liberals to defeat a government bill proposing the upgrading of the old-age pensions scheme.[93] Following the success of the SAP in the general election that took place later the same year, they established a more "principled" partnership with the former in a majority coalition government

From a historical point of view, this "red-green" coalition marked a turning point for both the labour and agrarian movements. For the labour movement, it had the same significance in bringing about social democracy as the "Lib-Lab" coalition of 1917-20 had in bringing about political democracy.[94] Although the Liberals were closer than the Agrarians to the SAP in economic and social policy during the 1930s, they had ceased to be a political partner with the accomplishment of universal suffrage, parliamentary government, and cabinet responsibility. Lacking a major political cause around which to mobilize a distinct constituency after 1920, they split organizationally and watched their electoral fortunes worsen.[95] In contrast, the Agrarians entered the 1930s with a unified organization and a constituency to mobilize, which was composed

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[93] Heclo (1974, pp. 211-26).

[94] On the Lib-Lab coalition of 1917-20, see Andrae (1975); Tingsten (1941/1973, pp. 345-457).

[95] In 1923, the Liberals had split over the issue of alcohol prohibition: the majority formed the prohibitionist Liberals; and the minority, the anti-prohibitionist Liberals. In 1934, these two parties joined forces to form the People's Party (Hancock 1972, pp. 119-22).

mainly of independent farmers.[96] With the "red-green" coalition, for the first time in Swedish history an agrarian party assumed direct political responsibility in a majority government. While the agrarians had had a very strong representation in the Riksdag both under the estates and bicameral regulations, they had used this representation to check and balance the aristocratic-bureaucratic governments rather than to govern for themselves.[97]

Taken as a whole, the three "bourgeois" contenders of the SAP were at a disadvantage in organizational terms. Although the SAP was chronologically the youngest of the four, it came first in establishing a nation-wide, mass-based party organization. In the case of the agrarian, liberal, and conservative formations, there was no national party organization to speak of until after the turn of the 20th century. The political "party" formations of the 18th and 19th centuries were largely estate (formal or informal) groupings in the Riksdag. During the "Era of Liberty" (1720-72), two such groupings came to emerge: (a) the mercantilist "Hats" who were based in the estate of nobility and who were supported by the royal bureaucracy; and (b) the proto-liberal, free trader "Caps" who were based in the "lower" estates (clergy, independent

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[96] The Agrarian Party (Bondeforbundet), not to be confused with the Farmers' Party (Lantmannapartiet) of the 19th century, was first established in 1913. It was reorganized in 1921 with the joining of the Farmers' National Association (Jordbrukarnas Riksforbund), which had been established in 1915 (Hancock 1972, pp. 122-4; Sarlvik 1974, p. 392; Soderpalm 1975, pp. 260-3, 271).

[97] On this "non-governmental" aspect of, e.g., the 19th-century agrarians (the Farmers' Party in its protectionist and free trade variants), see Andersson (1943/1955, chs. 33, 35); Braatoy (1939, p. 92); Rustow (1955, ch. 1); Tingsten (1941/1973, pp. 3-8).

peasantry, and burghers).[98]

This estate-based, quasi-party system was maintained after the abolition of estates and the establishment of two chambers in the Riksdag in 1866.[99] The first chamber emerged as the preserve of the aristocratic-bureaucratic group, which used different names but was Conservative in orientation. In the second chamber, the agrarians established an early hegemony and maintained it until the end of the century under the umbrella of the Farmers' Party and its splinters. During the same period, one weak Liberal group followed another in the second chamber. In 1902, however, the Liberals established a national electoral organization, which was the first among the three non-Social Democratic parties. Two years later, the Conservatives followed suit, incorporating the conservatized offshoots of the 19th-century Farmers' Party. Yet, not until after 1935 would there be a party organization unifying the Conservative parliamentary groups and electoral association.

In the general Scandinavian context, the organizational and political advantages which the social democratic labour movement had over the "bourgeois bloc" during the 1930s were less conspicuous in Denmark and Norway than they were in Sweden despite the fact that the Danish Social Democratic and Norwegian Labour parties

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[98] On the "Hats" and the "Caps", see Andersson (1943/1955, chs. 25, 26); Oakley (1966, pp. 144-5).

[99] On the historical development of the Agrarian, Liberal, and Conservative parties, see Braatoy (1939, ch. 5); Carlsson (1987, pp. 177-8, 196-200, 204-7); Hadenius ([1985] 1990, pp. 7-42); Hancock (1972, ch. 5); Rustow (1955, chs. 2, 3, 5, and pp. 248-9 for a useful "party genealogy"); Sarlvik (1974, pp. 372-81).

entered the political scene earlier than the SAP.[100] Moreover, they, especially the Danish party, had been a source of ideological inspiration for the SAP in its years of trial. Although they, too, confronted a Right divided into three major parties (Conservative, Liberal, and Agrarian) during the 1930s, for very different reasons they did not match their Swedish counterpart in putting a Social Democratic stamp on the political and economic relations of the period.[101]

Both the Danish Social Democratic and Norwegian Labour parties developed in a political environment which was much more liberal than the Swedish. Yet they responded to this environment in radically different ways. In Denmark, where liberalism was rooted in a capitalism characterized by export-oriented, "high-tech" agriculture and artisanal, small-scale industries, the Social Democratic Party took a reformist course from the outset. Consequently, when it entered a "Lib-Lab" coalition for full political democracy in 1913, it became the first Social Democratic party in Scandinavia to do so. The strength of liberalism would, however, prove to be the weakness of social democracy during the 1930s. Although the Kanslergade compromise (January 1933) among the Social Democrats, Radical Liberals (read: Agrarians),

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[100] Whereas the Danish Social Democratic Party was established in 1871, the Norwegian Labour Party was established in 1887, i.e. only two years earlier than the SAP. However, the Norwegian (not to mention the Danish) party began the electoral contestation much earlier than the SAP: 1894 vs. 1902. For a comparative view of the Scandinavian political parties, "socialist" and "bourgeois" alike, see Berglund & Lundstrom (1978, ch. 2); Elder **et al.** (1982, ch. 2); Elvander (1979); Esping-Andersen (1980, ch 2; 1985, chs. 2, 3); Lafferty (1971, ch. 5); Lindstrom (1985, chs. 3, 7); Olsen (1984, pp. 170-84); Tingsten (1941/1973, pp. 6-12).

[101] On the "bourgeois split" and its implications for social democracy in Scandinavia, see Castles (1978, ch. 3); Katzenstein (1985, ch. 4).

and Agrarian Liberals (ignore the adjective Agrarian) was the first "red-green" coalition in Scandinavia, it did not lead to any innovation in economic and social policy.[102]

In contrast to Danish Social Democrats, the Norwegian Labour Party took a revolutionary path to socialism. What accounted for this was the resource-based and polarized structure of the Norwegian economy. Political democracy came with the impulse of the Liberal forces while Labour stood on the sidelines: no "Lib-Lab" coalition. After the First World War, Labour took a further radical step by joining the Third International.[103] It finally reconciled itself to the parliamentary road to socialism around the same time the Swedish Social Democrats were proposing a deficit-financed public works program to fight unemployment in 1928. This reformist turn in politics was followed with a similar turn in policy between 1933 and 1935, when the Party struck a deal with the Agrarians --the first deal with a "bourgeois" party. As was the case with the Danes, however, the Norwegian "red-green" alliance remained a matter of political, rather than policy, innovation.

To sum up, among the three Social Democratic labour parties in Scandinavia, the Swedish party was in the most advantageous position for innovating both in

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[102] The Danish "red-green" coalition can in fact be traced back to 1929, when the Social Democratic and Radical Liberal parties formed a coalition government which would lack majority in the first chamber (Landsting) but not in the second chamber (Folketing). Ironically, the Agrarian Liberal support thrown to this coalition with the Kanslergade compromise amounted to a "Lib" dilution of its "red-green" content.

[103] The Labour Party would remain a "section" of the Third International until 1923.

politics and policy. When the world-historical crisis set in, the SAP had already come out with an innovative project involving the economic, political, and ideological dimensions. This compared with the conformist tendencies in the Danish party and the isolationist ones in the Norwegian party. Thus, the higher degree of Social Democratic innovation in Sweden was one of the factors which distinguished the Swedish experiment from its Danish and Norwegian counterparts during the 1930s.

Essential as it was, the Social Democratic project was not sufficient for the Swedish (and general Scandinavian) experiment to take place. Had it not been for the corporatist features of the Swedish (or Danish or Norwegian) polity, Social Democrats would have ended up playing the tune of their counterparts in Germany and the United Kingdom. It was corporatism which carried Social Democratic strength to the processes of political partner-making and economic policy-making. Precisely because of corporatism, the much weaker Social Democratic parties in such consociational countries as Belgium, the Netherlands, and Switzerland, were able to fashion similar political alliances with the much more conservative Agrarian parties.[104]

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[104] On the Agrarian-Social Democratic alliances in Belgium, the Netherlands, and Switzerland, see Katzenstein (1985, pp. 98, 143-8).

Corporatist Relations in Strong Institutions

Corporatism in Scandinavia was not an outcome of the cross-class and cross-sectoral compromises made during the 1930s.[105] Rather, the relationship was the other way around. As a political-regime type, corporatism preceded these compromises, causally as well as chronologically. It accounted for much of the answer to why the social democratic labour movements reached agreements with the agrarian movements, on the one hand, and the central business organizations, on the other.

In Sweden, the development of corporatism preceded not just social democracy but also political democracy. Paradoxically, the first major step in this direction was the formation and consolidation of an absolutist, sovereign polity in the 16th and 17th centuries.[106] Two of the most crucial legacies of absolutism were a strong governmental machinery based in royal bureaucracy and a quasi-corporatist assembly of estates (the Riksdag) representing the nobility, clergy, free-holder peasantry, and burghers. During the Era of Liberty (1720-72), the Riksdag made significant gains in checking the power of royal bureaucratic governments. After a brief absolutist interval between 1772 and 1809, the balance established between the two branches during the Era of Liberty was restored. The 1809 Constitution, which would still be in force as of the 1930s, laid the foundations of the modern Swedish state.[107] While leaving the

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[105] This is **pace** Peter J. Katzenstein (1985, p. 137) and John D. Stephens (1979, pp. 123, 135).

[106] On Swedish absolutism, see Rokkan (1975, pp. 573-88).

[107] On the 1809 Constitution, see Verney (1957, chs. 1, 2).

estates system intact, it introduced the separation of powers principle, stipulated the establishment in the Riksdag of several standing committees as a means of coordinating the deliberations of the four estates, and guaranteed the civil service a central place in the executive branch.[108]

The parliamentary reform which came with the Riksdag Act in 1866 replaced the four estates with two chambers, whose members would be elected on the basis of a very restricted male suffrage.[109] Whereas members of the larger, popular second chamber were elected directly by the eligible voters, those of the smaller, aristocratic first chamber were to be elected by the electoral colleges composed of the local councils (who were themselves elected directly by the eligible voters). Despite the difference in size and method of election, the two chambers sent equal number of members to the joint standing committees and had equal legislative powers in all matters except those relating to the budget.[110] Thus, under the new system, the old aristocratic-bureaucratic compact continued to have a strong "estate" representation in the Riksdag through the first chamber just as the agrarians did through the second

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[108] The Swedish civil service would maintain its position of influence in the 19th and 20th centuries. On this, see Anton (1980, ch. 1); Elder (1970, chs. 3, 4); Heclo (1974, pp. 33-46); Herlitz (1939, pp. 56-69).

[109] On the Riksdag Act of 1866 and the parliamentary framework it established for the rest of the century, see Verney (1957, chs. 3-6).

[110] Even in budgetary matters, the two chambers had equal legislative status. Yet, since the Riksdag Act of 1866 stipulated a complicated procedure of joint-voting in the case of disagreement over the budget, the second chamber had a numerical advantage over the first chamber in this regard (Verney 1957, p. 57).

chamber.[111] Moreover, this first-chamber presence gave the royal bureaucratic governments formed after 1866 a parliamentary look.

Parliamentary government did not, however, come until after the turn of the century. In Sweden, the first government with a clear parliamentary content was the Liberal government in 1905. Around the same time, two conflicting projects emerged over the future framework of parliamentary politics: a Liberal project supported by the Social Democrats and an exclusively Conservative one. The Conservative project was based on the preservation of equal legislative status for the two chambers and on the weakening of the second chamber through proportional representation (PR).[112] In contrast, the Liberals favoured a British-style parliamentary and electoral system. They, therefore, tried to maintain the existing practice of majoritarian representation with single-member constituencies and to curb the legislative powers of the first chamber in favour of the second.[113] Yet the Conservative project would get the upper hand: to the dislike of the "Lib-Lab" opposition, the parliamentary reform of 1907-9 introduced PR with only universal male suffrage and preserved legislative equality between the two chambers.

Intended or not, the consequences of these Conservative initiatives were crucial to Sweden's "politics of compromise" in the 20th century. The only changes which came with the "Lib-Lab" coalition of 1917-20 were universal suffrage and full

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[111] Lafferty (1971, p. 132).

[112] Braatoy (1939, pp. 51-2); Rustow (1955, p. 62); Verney (1957, p. 165).

[113] Stjernquist (1966, p. 134; 1987, pp. 288-9); Verney (1957, pp. 138-42).

parliamentarism.[114] Under the PR system, each of the standing committees turned into a miniature image of the Riksdag in composition: equal membership in cameral terms and proportional membership in political-party terms. For policy-making, such a composition proved to be critical first in the 1920s and then in the 1930s.[115] During the 1920s, when one weak minority government followed another, these committees wielded enormous power over government policies. In order for any proposed legislation to pass in the Riksdag, there had first to be a political compromise on that legislation at the committee level.[116]

Given the existence of the (standing and **ad hoc**) committee system as a channel of piecemeal compromises between or among political parties, governments did not need to have a parliamentary majority to be effective in policy terms. For example, the (Prohibitionist) Liberal government of 1930-2, a tiny minority government, happened to be the initiator of macroeconomic activism in Sweden: price stabilization, a moderate reflation, and deficit spending on relief and public works. What made this possible were the compromises reached in the Riksdag's standing committees on banking and the budget, and the institutional adequacy of the policy-

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[114] Greaves (1938); Rustow (1971); Verney (1957, ch. 11; 1972).

[115] On the standing (and **ad hoc**) committees in the Riksdag, see Andren ([1961] 1968, ch. 4); Arneson (1939, pp. 80-9); Board (1970, ch. 5); Carlsson (1987, pp. 176-7); Hastad (1957, ch. 7); Rustow (1955, ch. 6).

[116] Rustow (1955, pp. 90-101); Stjernquist (1966, pp. 121-2, 135; 1987, pp. 253-62).

implementing bodies.[117] For one thing, the Swedish central bank (Riksbank), whose origins dated back to the 17th century, was responsible to the Riksdag, and in reality, to its standing committee on banking, not to the government of the day.[118] The standing committee on the budget played the same role in fiscal policy as the banking committee did in monetary policy. Moreover, for those governments willing to innovate fiscally, there was an advantage other than the committee-level compromise. The fact that central government budgets were composed of the ordinary and loan parts provided a flexibility to make deficit-spending in times of crisis.[119]

While the committee system was of a purely parliamentary character, the royal investigatory commissions, which were issue-specific, had a governmental connection since they were administered by political departments. Nevertheless, these commissions, operating at the pre-legislative stage of policy formation, were highly inclusionary in their composition and audience. The membership of a typical royal commission consisted of representatives from the political parties, interest organiz-

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[117] For example, Sweden (and the other Scandinavian countries), unlike the Dominions and the Balkan countries, had full-fledged central-banking mechanisms to deal with the monetary issues during the 1930s. Therefore, the agenda of the monetary policy in Sweden was substantial rather than institutional. The amendment in 1934 of the Bank Act of 1911 can be considered as the major institutional event in banking. With this amendment, a Bank Inspectorate was created to regulate the commercial banks especially in terms of their industrial connections. The same year, the government also moved to establish a state bank for extending credits exclusively to small businesses.

[118] On the organizational features of the Riksbank, see Braatoy (1939, ch. 4); Gaitskell (1938, pp. 97-100); Heckscher (1930, pp. 135-6); Kjellstrom (1934, pp. 13-6).

[119] On Swedish budget structure, see Andren ([1961] 1968, ch. 9); Clark (1941, ch. 11); Thomas (1936, p. 240); Wigforss (1939, p. 8); Wilson (1938a, pp. 67-9).

ations, and the civil service, as well as experts.[120] If the proposals that the royal commissions came up with were the result of a corporatist process, the subsequent handling of those proposals was carried out in an even more corporatist process. Through a feedback system known as the "remiss" (referral), relevant political departments circulated the royal-commission proposals to a wider audience. It was only after the cycle of "remiss" was completed that such proposals could form the basis of legislative initiatives.

The coming to power of the Social Democrats with a stronger, though still minority, parliamentary base in 1932 did not diminish the importance of the opposition parties' participation in the parliamentary committees and royal commissions. In fact, the modest deficit-financed public works program launched in mid-1933 was an exemplar of compromise-based policy formation in Sweden. After proposing an ambitious program on the subject in January 1933, the SAP minority government had first to cut a deal with the Agrarians and then to wait the deliberations of the Riksdag's standing committee on budget. As we know, the proposed public works program came out of these two processes on a much reduced scale.

To put it differently, the very same political processes and structures which made the Social Democratic project viable were the limits of that project. The PR system at the electoral level was a structural enforcer of the "politics of compromise"

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[120] On the role of the royal investigatory commissions in policy formation in Sweden, see Anton (1969, pp. 92-100; 1980, p. 7); Braatoy (1939, pp. 62-3); Heclo & Madsen (1987, ch. 6); Meijer (1969, pp. 107-15); Ruin (1974, pp. 172-3); Snavely (1972, pp. 56-60); Weaver (1987, pp. 296-8); Weir & Skocpol (1985, pp. 125, 129).

at the executive and legislative levels. Indeed, with popular-support rate fluctuating between 41 and 50% throughout the 1930s, the SAP could not win enough seats to form a majority government on its own.[121] Under a different, e.g. majoritarian, electoral system, it would have been at the helm with a strong parliamentary majority.[122] What remains uncertain, however, is if it could still produce the "Swedish experiment" under a majoritarian electoral and parliamentary system.

Swedish Social Democrats were not alone in facing the trade-off between the qualitative pros and quantitative cons of working in a corporatist polity. With a popular-support rate comparable to the SAP's, the Danish Social Democratic and Norwegian Labour parties were also denied parliamentary majority during the 1930s.[123]

In most aspects, the Danish and Norwegian political trajectories were parallel

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[121] In the 1932 and 1936 general elections for the second chamber, the SAP got 41.7% and 45.9% respectively of the popular vote. As for the local elections (on the basis of which the so-called electoral colleges were formed to elect members of the first chamber), the percentages of the SAP votes during the period were 41.4 (1930), 42.1 (1934), and an impressive 50.4 (1938). For Swedish electoral statistics, see Esping-Andersen (1985, p. 329/tab. A.3); Flora et al. (1983, pp. 143, 185-6); Korpi (1983, pp. 237-40/tabs. A.1, A.2, A.3).

[122] Braatoy (1939, pp. 54-5).

[123] The Danish Social Democratic Party got 41.8 to 46.1% of the popular vote in the four general elections held during 1929-39, whereas the Norwegian Labour Party increased its share of the popular vote from 31.4% in 1930 (to 40.1% in 1933) to 42.5% in 1936 (Esping-Andersen 1985, p. 328/tab. A.2 for Norway; Flora et al. 1983, pp. 107, 161-2 for Denmark, pp. 139, 183-4 for Norway).

to the Swedish.[124] As was the case in Sweden, bureaucratization preceded democratization both in Denmark and Norway.[125] In Denmark, the first democratic opening came with the 1849 Constitution, which would establish a bicameral parliament and introduce equal but restricted male suffrage. The achievement of full parliamentarism in 1901 was followed by the introduction of universal male suffrage in 1915. With universal suffrage at hand in 1918, Denmark switched from a majoritarian electoral system based on single-member constituencies to the PR system based on multiple-member constituencies. Norway made the same suffrage extension and electoral-system switch in 1921. Norway was, however, the first country in Scandinavia to enter the path of democratization. The Norwegian Constitution of 1814 established a unicameral parliament (Storting) and introduced equal but restricted male suffrage. Likewise, Norway introduced full parliamentarism and universal male suffrage earlier than any other country in the region: 1884 and 1898, respectively.

As in the case of Sweden, the adoption of the PR system in Denmark and Norway had a crucial impact on policy formation.[126] With their own parliamentary-committee and governmental-commission traditions, these two countries also applied

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[124] On Danish and Norwegian political development in comparison with the Swedish, see Andenaes (1958); Andren (1964, pp. 25-59, 115-35); Berglund & Lundstrom (1978, ch. 1); Einhorn & Logue (1989, ch. 2); Flora **et al.** (1983, pp. 104, 136); Kuhnle (1975, pp. 7-28); Lafferty (1971, ch. 4); Nilson (1958).

[125] Unlike Denmark and Sweden, Norway installed a centralized bureaucratic machinery within the context of the cultural and regional divisions on a centre-periphery axis (Rokkan 1966, pp. 73-89; 1981, pp. 63-75).

[126] It was not a coincidence that the small consociational countries of Western Europe, such as Belgium, the Netherlands, and Switzerland, made a similar switch to the PR system in the early 20th century (Katzenstein 1985, pp. 150-7).

the PR principle to policy-making in the pre-legislative, cabinet, and legislative phases.[127] Thus, under the PR system, all three Scandinavian countries came to converge also in terms of including the parliamentary and extra-parliamentary forces in the formal policy-making processes and structures. What the experience of the 1930s added to this style of policy-making in Scandinavia was the opening and/or deepening of an informal sphere of contention and bargaining between economic actors. The end result was the combination of "numerical democracy" and "resource democracy".[128] Such a combination was what a full-fledged corporatism was all about.

SUMMING UP

In accounting for the protofordist compromises fashioned in the three Scandinavian countries during the Great Depression of the 1930s, I emphasized one international and two domestic factors. At the international level, the most important stimulant of the politics of compromise was Scandinavia's vulnerable position in the European interstate system. At the domestic level, the corporatist, inclusionary character of the Scandinavian polities had a compelling and facilitating impact on the "red-green" alliances. Corporatism was facilitative of the industrial "truces" as well. Yet, coupled

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[127] Andenaes (1958, p. 103); Arneson (1939, ch. 4); Arter (1994, chs. 2, 3, 5).

[128] On the co-existence of "numerical democracy" and "resource democracy" in Scandinavian policy-making, see Rokkan (1981, pp. 75-8)

with the organizational capacity of the business and labour organizations, the relative homogeneity of the industrial sectors was equally facilitative of these "truces".

There were, however, significant differences between the Swedish and Danish/Norwegian protofordist compromises. Whereas Denmark and Norway did not break new ground in strict economic terms, Sweden combined political innovation with economic innovation in that it experimented with demand stimulus and an active labour-market policy. The reason Sweden surged ahead of Denmark and Norway in economic experimentation had to do with the advantages it enjoyed at the economic and political levels. First, occupying a core position in the world economy, Sweden had a high level of diversification both in its trade composition and in its metropolitan linkages. By contrast, the semi-peripheral economies of Denmark and Norway were sector- (and partner-) dependent in export trade (the agricultural and extractive sectors, respectively). Secondly, the Swedish manufacturing sector was dominated by internationally competitive, highly concentrated capital-goods industries. This compared with the artisanal and resource-driven characteristics of the Danish and Norwegian industrial sectors, respectively. Thirdly, the SAP of Sweden achieved policy innovation within itself before it began to make policy. Compared with the SAP, the Danish and Norwegian parties were less flexible: the Danes went "liberal" and the Norwegians, "revolutionary".

CHAPTER 6

TURKEY: ECONOMIC BACKWARDNESS AND POLITICAL MODERNIZATION

There was an ironic twist to corporatism during the general crisis of liberalism in the 1930s. On the one hand, the Scandinavian countries and a few other capitalist democracies practiced corporatism without mentioning it. On the other hand, many countries in the Balkan and Iberic-Latin geo-social configurations, along with Nazi Germany and Fascist Italy, had recourse to corporatist rhetoric without actually practicing it. The absence of a genuine corporatism in this group of countries is related to what they had in common: authoritarianism. In its traditional and modern variants, authoritarianism was inherently antithetical to a pluralist, functional mode of representation and organization embodied in corporatism. Yet, compared with the liberal polities, both the corporatist and authoritarian polities provided a favourable environment for economic experimentation, which would take on the form of protofordism and neomercantilism, respectively.

With their authoritarian polities, the five small countries of the Balkans faced a choice between protectionism and neomercantilism when responding to the world economic crisis. In the course of the crisis, all five shifted, though on a varying degree, from protectionism to a peripheral version of neomercantilism involving autarky, import-substituting industrialization, and financial "orthodoxy". In the Balkan context,

peripheral neomercantilism found its most typical expression in the Turkish response. Turkey launched in the early 1930s an aggressive economic program involving autarkic trade policies, nationalizations, and industrial banking and planning. Compared with the Turkish case, the neomercantilism of each one of the other four Balkan countries we deal with --Bulgaria, Greece, Romania, and Yugoslavia-- was narrower in coverage and less **dirigiste** in application. Turkish neomercantilism was distinguished from its Balkan counterparts also by the high levels of state entrepreneurship and ownership (or "etatism" in the local vernacular).

Authoritarianism provided the broadest framework for the neomercantilist convergence among the Balkan countries. I emphasize three other factors in accounting for this convergence: (a) a common, peripheral position in the world economy; (b) similar, industrially-oriented financial institutions; and, most importantly, (c) a metropolitan context defined by Germany and, secondarily, Italy. For the peripheral economies of the Balkans, the Great Crash meant, first and foremost, a severe balance-of-payments crisis which in turn necessitated protectionist, if not autarkic, measures. What brought about autarky in the region was the German clearing-trade drive refashioned by the Nazis. Under such a quasi-bartering arrangement, the Balkan countries were able to export primary goods to, and import industrial goods from, Germany and, thus, eased their balance-of-payments difficulties. At the same time, they experimented with import-substituting industrialization to overcome these difficulties at the home front. In doing so, they either relied on the existing financial institutions organized along Continental-European lines or, as in the case of Turkey, created new

ones along similar lines.

The reason why Turkey came up with the most aggressive policies in the Balkans lay in the wider gap between its polity and economy. Compared with the other countries in the region, Turkey had achieved a higher degree of authoritarian institutionalization against a "higher" degree of economic backwardness prior to the world-historical crisis of the 1930s. What accounted for this "incongruence" was a bureaucratic modernization drive aiming to create a uniform nation-state. The "advantages" of economic backwardness for the "etatist" policy innovation of the 1930s should be located in this domestic-political context, as well as in the world-historical context involving the Great Crash in the market-based economies of the West and the subsequent successes of neomercantilism in Germany, Italy, and the Soviet Union.[1] The bureaucracy tried to close the gap between the polity and economy by incorporating "etatism" into its modernization drive. In doing so, it approached its Soviet counterpart to learn from the latter's industrial planning and banking experience.

In this chapter, I approach the Turkish experiment from two comparative perspectives: an intra-geosocial (i.e. Balkan) perspective and, on a secondary level, an inter-geosocial (namely, Iberic-Latin) perspective. The chapter is organized in two main sections. In section one, I first examine the (balance-of-payments) crisis in the Turkish and other Balkan economies in relation to the German clearing-trade drive. I then review the responses of the five countries in Iberic Europe and Latin America

[1] On the covariance of state industrial involvement with the "degree of backwardness", see Gerschenkron (1962, esp. pp. 44-7).

(Portugal, Spain, Argentina, Brazil, and Mexico) to show the importance of the geo-social context for the neomercantilist convergence among the Balkan countries. The main agenda of section two is the specificity of Turkish neomercantilism. Establishing the major "domestic-group" status of the bureaucracy both in the Republican and Ottoman periods, I conceive of "etatism" as a bureaucratic project to close the gap between the (modern) polity and (backward) economy.

THE CRISIS IN THE CORE: AN OPPORTUNITY FOR THE PERIPHERY?

Judged by the performance of the economy, Turkish neomercantilism was one of the most successful examples of its kind. GNP grew throughout the 1930s except for 1932 and 1935. For the whole decade, the average annual rate of growth in this respect was over 6%. Sectorally, industry fared better than any other sector. While declining slightly in 1935-6, industrial production registered an average 11% increase per year in the decade. In agricultural production (which declined in 1930, '32, '35, and '37), the average annual rate of growth was only half of that in industrial production. As a result, the industrial sector increased its share of GNP from under 12% in 1930 to 18% in 1939, whereas the agricultural sector saw its share of GNP declining from 43% to 39% between the same years.[2] Perhaps, the highest degree of correspondence between the aims and consequences of Turkish neomercantilism was reached in the foreign

[2] The GNP and its components are at constant prices. For these data, see Boratav (1983, p. 263/tab. 2); Gulalp (1983, pp. 118, 120, 128/tabs. 2, 3, 7, respectively); Hale (1981, p. 76/tab. 4.5); Tekeli & Ilkin (1982, p. 8/tab. 2).

sector of the economy. Under closed-economy conditions, Turkey had uninterrupted surpluses in its trade account throughout the 1930s except for 1938.[3]

Import-substituting industrialization, to whose use planning and "etatism" in general had been put, made major strides in certain areas during the 1930s. In 1940, the rate of import substitution (defined as the share of domestic supply in the total demand for any category of manufactured goods in a given market) was 32% for iron and steel, 97% for cement, 39% for pulp and paper, 91% for glasswares, 84% for cotton textiles, 98% for woolen textiles, and 90% for sugar. In 1929, by comparison, the rate had been 0% for iron and steel, pulp and paper, and glasswares, 49% for cement, 12% for cotton textiles, 24% for woolen textiles, and 10% for sugar.[4]

Partly due to the industrial bias of state policies and partly due to the world-wide depression of agricultural prices, the domestic terms of trade had been unambiguously against agriculture (and, by definition, in favour of industry) during the 1930s.[5] While all price movements took a downward plunge from 1929 until the mid 1930s, the decline was much steeper in agriculture than in industry. The role of the protectionist-prohibitionist trade policies in this was in terms of keeping domestic

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[3] For Turkey's balance of trade at current prices during the 1930s, see Boratav (1983, p. 263/tab. 1); Gulalp (1983, p. 122/tab. 4); Hale (1981, p. 73/tab. 4.4); Hershlag ([1958] 1968, p. 369/tab. 58); Kuyucak (1939, tab. 7); Tekeli & Ilkin (1982, p. 34/tab. 17); Tezel ([1982] 1986, p. 106/tab. 3.5); Thornburg et al. (1949, p. 277/tab. 29).

[4] Tezel ([1982] 1986, pp. 244-5/tab. 8.8).

[5] For the domestic, i.e. agricultural, terms of trade in the 1930s, see Boratav (1988a, p. 58/tab. 1; 1988b, p. 251/tab. 2); Tezel ([1982] 1986, p. 364/tab. 12.1).

industrial prices higher than international (more specifically, c.i.f.) industrial prices.[6] To conclude, declining domestic (i.e. agricultural) terms of trade served as the major mechanism of financing the etatist industrialization program.[7]

There was not, however, a homogeneous pattern of burden-sharing across the agricultural sector. At the level of price movements, industrial crops, particularly cotton and tobacco, did better than grains, wheat in particular.[8] The reason for this was twofold: the first group of products not only formed the raw material of import-substituting industries but also continued to dominate the export sector. The fact that Turkey ceased to import grains in the early 1930s and began to export wheat later in the decade had to do as much with those policies designed to reduce domestic consumption as with those designed to increase domestic production. Turkey's peasantry, the bulk of whom lived on grain (mainly wheat) farming, bore the brunt of the "etatist decade" through the declining terms of trade, increasing levels of taxation,

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[6] See Tekeli & Ilkin (1982, p. 22/tab. 11) for comparative indices of the c.i.f. (cost, insurance, and freight) and domestic-market prices of sugar and petroleum products in the early 1930s.

[7] According to Faruk Birtek's computations, during the 1929-39 period, the ratio of resources commanded by agriculture to those commanded by industry (at current prices) declined from a high of 5.2 : 1 in 1929 to a low of 1.9 : 1 in 1934-5 (1985, p. 411/tab. 1).

[8] For the absolute and relative price indices of the leading agricultural products, see Boratav (1983, p. 265/tabs. 4, 5; 1988a, p. 58/tab. 1; 1988b, p. 251/tab. 2); Gulalp (1983, pp. 129-30/tabs. 8, 9); Tekeli & Ilkin (1982, pp. 13, 18, 23/tabs. 6, 8, 12, respectively).

and usurious rates of interest in the informal credit market.[9]

By its very definition, the informal credit market, which was dominated by landed-merchant capital, eluded state control. In the formal credit market, however, the state not only increased its regulatory role but also became the major participant. The activities of the state in this respect ranged from commercial banking to sectoral credit and investment banking. As a result, in 1935, private banks accounted for only 16% of the paid-up capital of all banks.[10] Moreover, the country's largest private bank, which combined commercial and industrial functions, had a semi-official status.[11] As for a few foreign-owned banks operating in the country, their role further dwindled during the 1930s.[12]

To make a balance sheet of the period, the state itself emerged as the biggest winner. This was indicated by the increasing share of (civil and military) bureaucracy in the distribution of national income as well as by the increasing levels of state

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[9] To quote Robert W. Kerwin (1959, p. 252): "[...]the bill for the etatist growth fell largely on the peasants who bought the textiles and other products of state enterprise. [B]ecause of the way it was financed, state enterprise bit the hand it was trying to feed." For a Marxian version of this view, see Silier (1981, chs. 2, 3).

[10] Silier (1975, p. 519).

[11] Established in 1924 with the personal initiatives and funds of President M. Kemal, the Business Bank evolved as a "model" capitalist institution for both the private and state sectors. In 1934, its share in the paid-up capital of all national (private and state) banks was over 10% (Tekeli & Ilkin 1982, p. 30/tab. 15). In 1935, the country's six largest private banks (including the Business Bank) accounted for over 70% of the paid-up capital of all private banks (Silier 1975, p. 520).

[12] The largest of these foreign-owned banks, the Ottoman Bank, scaled down its operations in Turkey after its hopes to acquire central-bank status were dashed in 1930. For this, see Tekeli & Ilkin (1982, p. 31/tab. 16).

ownership in, and control over, the economy.[13] The second biggest winner were those groups in commercialized agriculture and the proto-industrial urban sector who thrived on the linkages new state industries had established.[14] On the one hand, cash-crop farmers, especially large cotton farmers, who had been producing primarily for the world markets in the previous periods, found an expanded domestic market with the rise of the import-substituting, consumer-goods industries. On the other hand, the proto-industrialists of the late 1920s and early 1930s grew into full-fledged industrialists under etatism, by seizing the various linkage opportunities springing from the state sector as a whole. Political considerations aside, the emergent class of industrial workers economically did better than any other category of direct producers.[15]

Regardless of what they produced for (subsistence, market, or both), grain-producing peasants were the big losers among the direct producers.[16] The only "big interest" which was hurt substantially by the crisis and the state was that of the

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[13] See Boratav (1988a, p. 58/tab. 1) for the increases in the bureaucratic salary-national income ratios; Tekeli & Ilkin (1982, p. 53/tab. 29) for the increasing share of the salary (and wage) bill in central-budget expenditures.

[14] Boratav ([1974] 1982, pp. 176-7; 1988a, pp. 59, 62); Keyder (1987, pp. 101-7); Tekeli & Ilkin (1977, pp. 217-23; 1982, pp. 328-35).

[15] See Boratav (1988a, p. 58/tab. 1; 1988b, p. 251/tab. 2) for wage indices in private industries; Okyar (1953, pp. 211, 213) for levels of total industrial employment.

[16] Yet, Faruk Birtek and Caglar Keyder think differently (1975, pp. 449-56; see also Keyder 1981, p. 33). They claim that, during 1932-6, the state (or the state party) entered a positive-sum relationship with the wheat-growing middle farmers on the basis of price support programs. With these programs coming to an end in 1936, they continue, middle farmers parted company with the regime. According to another scenario, the party state-middle farmer relations did not break up in the 1930s, given the arrest of the deterioration in agricultural terms of trade in the second half of the decade (Pamuk 1988, pp. 91-6).

merchant groups who had been controlling the foreign sector of the economy during the "liberal" 1920s. These groups, i.e. exporters and especially importers, lost their privileged position as intermediaries between the outside world and the local economy.

In fact, it is in the crisis of the foreign (trade and finance) sector that we find one of the key clues to the neomercantilist breakthrough in Turkish economic policies. In what follows I give a comparative account of Turkey's foreign economic profile.

Economic Closure and the German Trade Connection

Turkey's economy had its highest level of openness during the 1923-9 period covering the first seven years of the Republican rule. During this period, exports accounted for an average 11% of GNP; and imports, an average 15%. For the 1930s, the average export-to-GNP and import-to-GNP ratios would be much lower: 8% and 7%, respectively.[17] With a floating currency, and under the free-trade regime which was partly due to a commercial convention stipulated by the Allies in the Lausanne Treaty of 1923, Turkey registered continuous trade and general current-account deficits from 1923 to 1929.[18] These deficits would not, however, cause any serious balance-

[17] Gulalp (1983, p. 124/tab. 5, p. 128/tab. 7). For the (higher) export-to-GDP and import-to-GDP ratios during the two periods in question, see Tezel ([1982] 1986, pp. 102-3/tab. 3.4).

[18] In the Lausanne Treaty signed on July 24, 1923, the new Turkish regime was obliged not just to assume a large portion (two-thirds) of the Ottoman debt. According to a commercial convention attached to the Treaty, Turkey was obliged also to apply the (lower) Ottoman customs tariffs of 1916 to imports from the signatory countries

(continued...)

of-payments difficulties until late in the decade. Given the upswing in world agricultural prices (meaning favourable terms of trade for Turkey), there was a steady inflow of foreign capital in the form of short-term credits, which offset the current-account deficits.

Turkey took two new steps in foreign economic policy in 1929 but before the Great Crash in October of that year. First, after having a free hand in trade policy with the expiration of the commercial convention mentioned above, the Republican government introduced a higher, mildly protective tariff schedule in June 1929. Prior to the new tariff legislation, however, there was a sharp increase in imports and trade deficits, which was largely due to the importers' promptness in taking advantage of the lower rates of the old tariff schedule for a last time. The coincidence of the increase

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[18](...continued)
(namely, the United Kingdom, France, Italy, Japan, and the Balkan countries except for Bulgaria) for a period of five years. The convention had not allowed any tariff changes or, with some exceptions, quantitative restrictions concerning imports from those countries for the duration of the period. Thus, Republican Turkey could not have a general tariff policy of its own before the expiration of this commercial clause. On the Lausanne Treaty's commercial (and financial) provisions, see Boratav (1981, pp. 168-70; [1974] 1982, pp. 10-1); Hale (1984, p. 155); Hershlag ([1958] 1968, pp. 18-22); Tekeli & Ilkin (1977, pp. 33-4).

The commercial convention of the Lausanne Treaty was only partly responsible for the free-trade regime of 1923-9, because Turkey had a number of options to bypass the low-tariff stipulations of that convention for the imports it would make from the signatory countries, not to mention the right to determine its own tariff schedule regarding the imports it would make from all other countries. However, it not only did not use those options, but also applied the tariff schedule stipulated in the convention to imports from such non-signatory countries as the United States, the Soviet Union, Poland, and Austria. For this, see Boratav (1983, p. 261; 1988a, p. 29); Gulalp (1983, p. 22); Tezel ([1982] 1986, p. 140).

For Turkey's balance of trade and payments, and terms of trade, as well as the lira's exchange rate, during the 1920s, see Hale (1981, p. 48/tab. 3.3); Keyder (1981, pp. 76, 79, 83, 85/tabs. 4.5, 4.9, 4.11, 4.12, respectively).

in trade deficits with the payment of the first instalment of the Ottoman debt further deteriorated the exchange position of the lira against the pound sterling.[19] The second step taken by the government was thus in response to this "exchange crisis": the imposition of the first significant exchange controls in July 1929.

Although the new tariff and currency measures signified a shift towards protectionism before the Crash, they were far from being the harbingers of autarky to come.[20] In early 1929, when preparations for the tariff legislation were well underway, the government concluded an agreement with the Ford Motor Company, according to which the latter was going to open an auto assembly plant in Istanbul.[21] It was only after the onset of the crisis in late 1929 that the Republican government broke with the patterns of the 1920s in foreign-economic policy and began to mould new ones based on autarky. The autarkic policies were both a response to and a factor responsible for the pivotal changes which the foreign sector of the economy would undergo in the next few years. By the early 1930s, these changes would in turn facilitate the introduction of "etatism" as a strategy of import-substituting industrialization.

The year 1929 was a climax in terms of the deficits in trade and current account, the capital inflows, and the fall in the exchange rate of the lira. By 1930, the

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[19] Tekeli & Ilkin (1977, pp. 78-81).

[20] For varying interpretations of these two pre-Crash measures, see Hershlag ([1958] 1968, pp. 62, 66-7); Keyder (1981, p. 71); Kuyucak (1939, pp. 15-7); Tekeli & Ilkin (1977, pp. 67-74, 88-90); Tezel ([1982] 1986, p. 205).

[21] The onset of the crisis simply killed this project (Keyder 1981, p. 93; Tekeli & Ilkin 1977, p. 77).

trade and current-account balances began to register surpluses; capital flows, to turn outwards; and the exchange rate of the lira, to rise.[22] This was by no means a bright picture from the vantage point of the foreign-economic sector. Turkey's terms of trade, which had been in decline since 1927-8, continued to decline until 1933. From 1929 to 1934, exports continuously dropped in value (but increased in volume with the exception of 1930). The drop in imports was, however, much more drastic: imports dropped both in value and volume from 1929 to 1933 without interruption. The outcome were trade surpluses and a diminishing trade sector. That the current account, too, registered surpluses beginning in 1930 had to do largely with these trade surpluses.

The cessation of foreign capital inflows with the onset of the world economic crisis was Turkey's major balance-of-payments difficulty. It was this reversal of capital flows, as well as the protectionist/prohibitionist policies, that plunged the level of imports to a record low. The state responded to the crisis of the importing sector by experimenting with import substitution.[23] It found a niche in the decline of the merchant capital and foreign sector in general for an "etatist" variant of import-substituting industrialization.

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[22] For the balance of trade and payments, terms of trade, and exchange-rate statistics during the 1930s (and late 1920s), see Gulalp (1983, p. 122/tab. 4); Hale (1981, p. 73/tab. 4.4); Hershlag ([1958] 1968, p. 369/tab. 58); Kuyucak (1939, tabs. 7, 9, 10); Tekeli & Ilkin (1977, pp. 34, 42, 43/tabs. 17, 23, 24, respectively); Tezel ([1982] 1986, p. 364/tab. 12.1); Thornburg et al. (1949, p. 277/tab. 29).

[23] Boratav ([1974] 1982, p. 117); Gulalp (1980, p. 45; 1983, pp. 25-30); Keyder ([1976] 1979, pp. 120-1); Tezel ([1982] 1986, pp. 146-7).

As a response to the crisis of the foreign economic sector, "etatism" in turn caused some significant changes in the intra-sectoral, but not the inter-sectoral, composition of imports.[24] While manufactures continued to account for an overwhelming majority of Turkey's imports, there was an explicit shift in the composition of the imported manufactures from consumer to intermediate and capital goods over the 1930s. This must be seen in light of two interrelated factors: (a) the pattern of import substitution based on the development of consumer-goods industries, and (b) the protection of these industries with prohibitive measures. As for exports, which had been, and continued to be, composed of primary products (most notably, tobacco, raisins and figs, hazelnuts, and cotton), the changes that occurred were rather of a fluctuating type reflecting demand levels in international markets.

During the 1930s, while the level of trade dependency declined very sharply, the level of partner dependency rose to a record high.[25] Under the open-economy conditions of the 1920s, four of Turkey's five major trading partners --Germany, the United Kingdom, France, and the United States-- each had a modest percentage of the Turkish exports, which was within the range of the lower teens. In imports, the percentage share of each of the first three countries was within the range of the mid

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[24] On the composition of Turkey's exports and imports in the 1920s and 1930s, see Keyder (1981, p. 71/tab. 4.2, p. 74/tab. 4.4); Tekeli & Ilkin (1982, p. 35/tab. 18, p 38/tab. 19); Tezel ([1982] 1986, p. 107/tab. 3.6, p. 109/tab. 3.7); Thornburg et al. (1949, p. 278/tabs. 30, 31).

[25] On Turkey's trade partners in the 1920s and 1930s, see Arndt (194[illegible], p. 198); Ellis (1941, p. 388); Kuyucak (1939, tab. 15); League of Nations (1938, p 53); Tekeli & Ilkin (1982, tabs. 20, 21); Tezel ([1982] 1986, p. 145/tab. 5.2); Thornburg et al. (1949, pp. 281, 282, 284/tabs. 34, 35, 36, respectively).

teens whereas the United States had an average 5% share. Italy, Turkey's "largest trading partner" in the 1920s, accounted for an average 23% of exports (and an average 15% of imports). However, the main portion of the trade registered with Italy during the 1920s and early 1930s was actually trade with the Western and Central European countries. Trieste, a seaport in northern Italy, served as a convenient point of rerouting for Turkish exports to and imports from these countries.[26]

Paradoxically, autarky brought about dependency in trade on Germany, which was less than enthusiastic about Turkey's industrialization drive. The reason why Germany came to dominate Turkey's foreign trade during the economic closure of the 1930s lay, first, in the balkanization of world trade networks and, second, in the suitability of Turkish policies (such as the overvaluation of the lira, exchange controls, and import/export controls) to the German clearing-trade system. Germany increased its share of Turkish exports from 14% in 1930 to a record 52% in 1936, and its share of Turkish imports from 21% in 1930 to a record 51% in 1939.[27] This should be considered in relation to the fact that, in the second half of the decade, about four-fifths of Turkey's total foreign trade were carried out through the clearing system.

Other than Germany, the United States was Turkey's only major trading partner whose share of Turkish foreign trade increased during the period (between 1930 and 1937, for example, from 12% to 14% of exports and from 4% to 15% of imports).

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[26] Keyder (1981, pp. 74-5).

[27] The decade averages for Germany's shares in the Turkish exports and imports were 32% and 37%, respectively.

Turkey's three other major trading partners (Italy, the United Kingdom, and France) virtually vanished from its foreign trade in the late 1930s. Between 1930 and 1936-7, for example, Italy's shares of Turkish exports and imports declined from 21% and 14% to 4-5% and 2-5%, respectively and in the same order; the United Kingdom's, from 9% and 11% to 5-7% and 7-6%; and France's, from 12% and 10% to 3-4% and 3-1%.[28] The Soviet Union, which was a main source of learning and technical/financial assistance for Turkey's experiment with planning for industrialization, played only a minor role in its foreign trade during the period. On the average, 4% of exports and 5% of imports were carried out with the Soviet Union.

Turkey was not, of course, the only country in the Balkans whose foreign-trade sector came under German domination during the 1930s. The foreign-trade sectors of Bulgaria, Greece, Romania, and Yugoslavia, too, experienced a balkanization under the clearing system and became increasingly integrated into the orbit of German neomercantilism.[29] With the exception of Yugoslavia, all Balkan countries including Turkey registered a net "surplus" for the decade in their trade accounts with Germany. Yet, under the clearing system, these "surpluses" were actually a credit in kind

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[28] The decade averages of Italy's shares in the Turkish exports and imports were 12% and 9%, respectively; the United Kingdom's, 7% and 10%; France's, 6% and 5%; and the United States', 12% and 7%.

[29] For the country shares (and clearing shares/balances) in the foreign trade of Bulgaria, Greece, Romania, and Yugoslavia during the 1930s (and 1920s), see Arndt (1944, p. 198); Berend & Ranki (1974, p. 282); Ellis (1941, pp. 259, 268, 388); Lampe & Jackson (1982, pp. 366, 458-60, 463/tabs. 10.13, 12.7, 12.8, respectively); League of Nations (1938, p. 53); Neil (1979, p. 397); Raupach (1972, p. 245).

extended to Germany.

Of all countries in the region, Bulgaria had the highest level of dependency on trade with Germany. The shares of Germany in Bulgarian exports and imports increased, respectively, from 34% and 30% in 1930 to 68% and 66% in 1939. These compared with the following increases in German shares in the foreign trade of the other three countries between the same years (between 1930 and 1938 for Greece): in Greek exports and imports, respectively, from 26% and 12% to 40% and 30%; in the Romanian case, from 28% and 37% to 32% and 39%; and in the Yugoslavian, from 29% and 34% to 32% and 48%.[30] With Germany looming large in the region, Italy lost, from the mid-1930s on, its position of significance in the foreign trade of all four countries. As the third largest player in the region, the United Kingdom, too, saw its trade shares shrinking, though not as abruptly as Italy's, in the second half of the decade.

As in the case of Turkey, economic closure preceded partner dependency in these countries.[31] To be more specific, before becoming dependent on Germany as

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[30] In the foreign trade of all Balkan countries, Germany's shares include Austria's. This does not make any difference for 1938-9, since Germany had annexed Austria in March 1938. As for the previous years, there is still no significant difference in the cases of Turkey and Greece, in whose foreign trade Austria was only a negligible player. But, in the foreign trade of Bulgaria, Romania, and especially Yugoslavia, Austria was a significant player prior to 1938. In 1930, for example, its shares in the Bulgarian exports and imports were 8% and 7%, respectively; in the Romanian, 9% and 12%; and in the Yugoslavian, 18% and 17%. Austria's share in the foreign trade of Yugoslavia in 1930 was actually larger than Germany's.

[31] For example, between 1929 and 1933, the share of exports in the GDP of Bulgaria declined from 12% to 6%; of Romania, from 11% to 8%; and of Yugoslavia, from 9% to 4% (Drabek 1985, p. 468/tab. 7.42).

a trading partner, they endured a severe crisis in their foreign-economic sectors, whose typical indications had been the declining terms of trade, the deficits in trade and current account, and difficulties in importing capital.[32] Similarly, what drove them to autarky was the coincidence of this crisis with the German clearing-trade drive in the region. With the transition to autarky in the early 1930s, Bulgaria, Romania, and Yugoslavia began to register continuous trade surpluses, to improve their current accounts, and thus to do without much further import of capital. In view of the fact that these three were heavy debtors, they avoided currency devaluation in order to ease the burden of debt-servicing.[33] In contrast, Greece continued to register trade and current-account deficits, and thus to be a net importer of capital throughout the 1930s except for 1933. That the Greek government resorted to currency devaluation in 1932 had to do more with the foreign bondholders' control (International Commission of Economic Control) over its finances than with any rationale for export promotion.[34]

Although the direction of capital flows for the region as a whole was outward during the 1930s, Greece and the three northern Balkan countries maintained the high levels of foreign, mainly Western European, capital invested in their non-agricultural

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[32] For the balance of trade and payments positions of the four Balkan countries during the 1920s and 1930s, see Lampe & Jackson (1982, p. 462/tab. 12.8, pp. 512-6/tab. 12.25).

[33] Berend & Ranki (1974, ch. 10); Ellis (1941, p. 257); Teichova (1989, p. 951).

[34] On Greece's foreign-economic profile during the 1930s, see Freris (1986, pp 82-9, 98).

sectors during the 1920s and earlier periods.[35] With regard to the level and sectoral distribution of foreign investment, the major divide was again between Greece, on the one hand, and Bulgaria, Romania, and Yugoslavia, on the other. In Greece, which had the highest per capita level of foreign investment among the four, foreign direct investment was confined largely to public utilities, mining, commerce, and banking. In the other three (especially in Romania and Yugoslavia), whose per capita levels of foreign investment were similar, foreign direct investment was heavily concentrated in the industrial sector.

The preexistence and maintenance of the high levels of foreign investment in all four countries was a crucial feature which distinguished them from Turkey. During (and prior to) the 1920s, Turkey, too, received foreign direct investment, whose pattern had been similar to those in the other Balkan countries, mainly from Western Europe, through concessionary monopolies and shares in joint-stock companies, and limited to the non-agricultural sectors (in particular, public utilities, industry and mining, commerce, banking and insurance).[36] Yet, compared with the rest of the Balkans, the level of foreign investment in Turkey remained very low. Moreover, even before the crisis set in, the Turkish government had begun to nationalize foreign-owned railways

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[35] For the levels of foreign investment in Bulgaria, Greece, Romania, and Yugoslavia before and during the 1930s, see Freris (1986, pp. 67-8); Lampe & Jackson (1982, pp. 428-9/tab. 11.15, pp. 509-10/tab. 12.23); Singleton & Carter (1982, pp. 68-9); Spulber (1959, p. 265); Teichova (1985, p. 292/tab. 5.36; 1989, pp. 911-27).

[36] On the pattern and level of foreign investment in Turkey during the 1920s, see Boratav ([1974] 1982, pp. 21-3, 27-9, 66-70); Hershlag ([1958] 1968, p. 41); Keyder (1981, pp. 59-64); Silier (1975, p. 522); Tezel ([1982] 1986, pp. 165-72).

and the concessionary monopolies as in the case of tobacco.

With a low level of foreign investment and a weak industrial base, Turkey chose "etatism" as a shortcut to import-substituting industrialization. In the contrasting cases of Greece and especially the three northern Balkan countries, private consumer-goods industries had already reached a considerable degree of import substitution during the late 1920s with the fiscal encouragement and tariff protection of the state.[37] A telling indicator of Turkey's "late-comer" status in the Balkans was the fact that its 1927 legislation for the encouragement of private industries was modelled after the Bulgarian and Romanian cases among others.[38]

The presence of a relatively strong industrial base mainly in the form of private consumer-goods industries had major repercussions on the import-substituting experiences of Bulgaria, Greece, Romania, and Yugoslavia during the 1930s. All four registered significant increases both in the volume of industrial production and in the rate of import substitution over the decade, thanks to the further strides which the light, consumer-goods industries had made.[39] Likewise, the level of state ownership in their

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[37] On the industrial policies and performances of these four countries during the 1920s, see Freris (1986, pp. 36-42); Lampe (1986, pp. 70-7); Lampe & Jackson (1982, pp. 412-3/tab. 11.10, p. 486/tab. 12.16); Ranki & Tomaszewski (1986, pp. 5-21); Singleton & Carter (1982, pp. 62-3); Spulber (1959, pp. 270-4); Teichova (1989, pp. 904-11); Turncock (1986, pp. 85-110).

[38] On the 1927 legislation for industrial encouragement in Turkey, see Boratav ([1974] 1982, pp. 86-9); Gunce (1967, p. 7); Hershlag ([1958] 1968, p. 54); Keyder (1981, pp. 50-8); Tekeli & Ilkin (1977, pp. 39-40, 64-7).

[39] Berend & Ranki (1974, pp. 300-3); Freris (1986, p. 110); Lampe & Jackson (1982, p. 486/tab. 12.16); Ranki (1985, pp. 71-2); Spulber (1959, p. 267).

economies, and in the industrial and financial sectors in particular, rose considerably.[40] Yet, compared with the Turkish case, their experiences in import-substituting industrialization during the 1930s were more gradual and less statist.

Regardless of these differences in the rhythm and pattern of import substitution, all Balkan countries remained importers of finished products and exporters of raw materials and semi-processed articles.[41] Bulgaria continued to rely on tobacco, grains, poultry and dairy products for its export earnings; Greece, almost exclusively on tobacco and raisins; Romania, on petroleum, grains, and forest products; and Yugoslavia, on forest products, grains, livestock, and minerals.[42] As for imports, the Balkan (and, as we will see below, Latin American) experiments with import substitution elevated dependency on manufactures from the stage of light consumer goods to that of intermediate and producer goods.

To conclude, for the peripheral Balkan economies, the world economic crisis was first and foremost a crisis in their foreign sectors. With the plunge of their foreign terms of trade, the closure of their primary-export markets, and the cessation of capital inflows, these economies faced a balance-of-payments crisis which crippled their capacity to service foreign debts and to import manufactured goods. Critical to the autarkic shift in the Balkans was the coincidence of this crisis with the German

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[40] Lampe (1986, p. 100); Lampe & Jackson (1982, pp. 476-9); Ranki & Tomaszewski (1986, p. 38); Spulber (1959, pp. 268-70).

[41] Drabek (1985, p. 401/tab. 7.14); Raupach (1972, pp. 238-9).

[42] For the export composition of the four countries in the 1920s and 1930s, see Lampe & Jackson (1982, pp. 368-9/tab. 10.14, pp. 466-7/tab. 12.9).

clearing-trade drive in the region. Through clearing trade, Germany opened its market to Balkan primary exports and the Balkan countries opened their markets to German manufactured exports. Thus, by connecting their foreign-trade sectors to the German clearing-trade network, the Balkan countries found a partial solution to the balance-of-payments crisis.

The Balkan countries found another solution to the crisis by experimenting with import substitution. We must not, however, equate the forces responsible for autarky with those responsible for import substitution. Whereas autarky came with the pressures of the crisis and the German clearing-trade drive, import substitution had a more "voluntary" dimension. With the lowest industrial base in the region, Turkey produced the most **dirigiste** experiment in industrialization by threading a delicate balance between the German clearing-trade and Soviet industrial-planning connections. Compared with Turkey, the other Balkan countries, which had a higher industrial base, proved to be more gradual and less statist in their industrialization drive.

In what follows I open a second comparative framework for Turkish neomercantilism by reviewing the concurrent experiences of Argentina, Brazil, and Mexico in Latin America, and of Portugal and Spain in Iberic Europe. Upon this review, I conclude the section and begin a new one in which I emphasize the bureaucratic foundations of the Turkish industrialization drive.

An Iberic-Latin Perspective

The economic-policy experiences of the five countries in the Iberic-Latin geosocial configuration provide us with another comparative perspective to make sense of Turkish neomercantilism. Especially in industrial(-ization) policy, the cases of Brazil, Mexico, and Argentina had some parallels, as well as contrasts, to that of Turkey. As in Turkey, the balance-of-payments crisis was a major factor in the shift towards import-substituting industrialization in the three Latin American countries.[43] Yet, compared with the Turkish case, the import-substitution experiments of these countries were much more private sector-based, largely because of the fact that they had a much higher industrial base prior to the world economic crisis. Moreover, there were significant differences between Argentina, on the one hand, and Brazil and Mexico, on the other. Mexico and especially Brazil made rapid strides in consumer-goods industries through import substitution. As for Argentina, with an exceptionally high level of industrialization by Latin American standards, it underwent a process of "latin-americanization" during the 1930s.[44] Like Argentina, Portugal and Spain emerged from the crisis with a relative deterioration of their economic position. The two Iberic countries proved to be protectionist, i.e. conservative, in their economic responses to the Great Depression. Let us first take up the Argentine case.

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[43] On the (balance-of-payments) crisis-import substitution connections in Latin America in general, see Hirschman (1968, esp. pp. 5-12).

[44] For the "Argentine exception" in Latin America, see Gravil & Rooth (1978, p. 341); Wythe (1937, p. 213/tab. 1).

During the 1930s, Argentina was caught up in the middle of two economic-policy pulls: the Latin American and the British White Dominion. As an "informal White Dominion", Argentina had a British touch in many aspects of its reaction to the crisis. The Argentine policy package included departure from the gold standard, currency devaluation, exchange controls, tariff increases, export subsidies (for wheat), a bilateral trade agreement with the United Kingdom, (namely, the Roca-Runciman treaty of 1933, which was a substitute "Ottawa agreement"), establishment of a central bank, heavy taxation, and "sound finance".[45] Yet Argentina was also a Latin American country. Supported by the landed and commercial "oligarchy", the coup of 1930 overthrew the Radical Party government and ushered in the Concordancia era to be ended by another coup in 1943. While the Argentine industrial sector actually grew during this era, it lost its exceptional position in Latin America given the much speedier pace of Brazilian industrialization.[46]

In contrast to Argentina, Brazil pursued an explicit policy of import substitution during the 1930s. After the "revolution" of 1930, which weakened the landed and commercial "oligarchy", Brazil launched a comprehensive program of industrial incentives involving currency devaluation, exchange and import controls, protective

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[45] Alhadeff (1985); Diaz Alejandro (1970, ch. 2); Gravil & Rooth (1978); Knox (1939, p. 54); Twomey (1985).

[46] Cardoso & Faletto (1971/1979, p. 101); Diaz Alejandro (1970, pp. 94-105); Gravil & Rooth (1978, pp. 341-69).

tariffs, fiscal inducement, and social protection exclusively for industrial labour.[47] The institutional counterpart of this program was the creation of a number of federal economic agencies, including the Banco do Brasil (central bank) and a foreign trade council. The success of the Brazilian industrialization drive was evident in the high rate of annual growth in industrial production registered during the 1933-9 period: 11%.[48] Especially during the "corporatist" Estado Novo era of 1937-45, import-substituting industries made rapid strides.

The Brazilian experiment had a number of parallels to the Turkish case. First, different sectors of the Brazilian economy came under the influence of different metropolitan centres. Whereas Germany played a primary role in Brazil's foreign trade until 1939, the United States formed its major source of industrial credit and foreign direct investment. For example, the country's, and also Latin America's, first steel mill was built with US financial and technical involvement. Secondly, Brazil experimented with planning. Yet, unlike its Turkish counterpart, the Brazilian "five-year plan", launched in 1939, was rather a military spending program. And, thirdly, Brazil drew on the Italian "Labour Charter" of 1927 for its industrial-relations system. Unlike Turkey, however, it "incorporated" the unions as quasi-state institutions.

Drawing on Italy and Portugal as its old imperial centre, Brazil instituted a modern authoritarian regime with a broad upper-class base. In Mexico, by contrast,

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[47] On Brazilian economic policy during the 1930s, see Cardoso & Faletto (1971/1979, pp. 91-3); Frank ([1967] 1969, pp. 174-81); Hilton (1975, 758-62); Wirth (1970, pp. 17-68, 71-129).

[48] Hilton (1975, p. 757).

authoritarianism rose on an explicitly anti-"oligarchic" platform and acquired a broader popular-class base.[49] In fact, with its democratic touch, Mexican authoritarianism was a unique phenomenon in that it was inclusionary of the popular classes. This said, the record of the import-substitution experiment in Mexico was not as impressive as that of Brazil. The "popular front" initiatives of 1934-40, including the launching of a six-year plan in 1934, proved to be an experiment mainly in redistributive/institutional reform. The reform package was composed of land redistribution, nationalizations (in industry and transportation), and a confederative organization of the "popular sectors" (peasants, workers, soldiers, and the white collar) within the official-party hierarchy.[50]

Under democracy between 1931 and 1936, Spain failed where Mexico succeeded under a unique authoritarian regime. The land reform initiatives of a democratic coalition in 1931-3 were interrupted by another democratic coalition.[51] When the Popular Front government resumed land reform initiatives in 1936, it sparked a military revolt which would escalate to the civil war and culminate in the victory of dictatorship in 1939. Spain's experience of the 1930s was a failure in strict economic terms as well. Both under pre-1931 dictatorship and post-1931 democracy,

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[49] For the political-regime and economic-policy differences between Brazil and Mexico, see Collier (1982, pp. 63-73); Evans & Gereffi (1982, pp. 121-2); Graham (1982, pp. 17-8).

[50] On the social-reform emphasis of the Cardenas period (1934-40), see Cornelius (1973, esp. pp. 436-62). In his comparative analysis of the Mexican and Turkish single-party systems, Ergun Ozbudun emphasizes the differing alignment strategies of the bureaucratic revolutionaries (1970, esp. pp. 382-97). According to him, alliance with the popular classes extended the life of the Mexican single-party system just as alliance with the landed upper classes shortened the life of its Turkish counterpart.

[51] On Spanish economic policy during the 1930s, see Harrison (1978, ch. 7; 1983).

Spanish economic policy was distinctly conservative. Partly due to economic policy and partly due to the civil war, the industrial sector diminished both in absolute and relative terms.

Unlike the Spanish, the Portuguese economic decline in the 1930s was accompanied by political stability. Under an "anti-developmentalist" authoritarian regime which was installed after the democratic breakdown of 1926, Portugal responded to the crisis with protectionism in that it stuck to the tenets of monetary and fiscal orthodoxy.[52] Yet, as in Germany, Italy, Brazil, and Mexico, Portugal experimented with institutional reform along the "corporatist" lines. The most conspicuous development in this respect was the institution of Estado Novo in 1933.[53] Modelled after the Italian case, the "corporatism" of Portuguese Estado Novo included numerous organizational schemes, a labour-repressive industrial relations system, and a social security scheme. There were, however, significant differences between the Italian and Portuguese experiments. Economically, Portugal, unlike Italy, proved to be distinctly conservative: no industrialization drive. Politically, Portuguese authoritarianism conformed to the state-party pattern whereas its Italian counterpart conformed to the party-state pattern.

Regarding the economic-policy experiences of the five Iberic-Latin countries

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[52] I borrow the term "anti-developmentalism" from Giovanni Arrighi (1985b, pp. 257-8). For a political economy of the democratic breakdown of 1926, see Schwartzman (1989). On Portuguese economic policy during the 1930s, see Wiarda (1977, chs. 4, 5).

[53] Wiarda (1977, pp. 99-125).

in the 1930s, the main divide was between Brazil and Mexico, on the one hand, and Argentina, Portugal, and Spain, on the other. Expressed in paradigmatic terms, the first group's response was neomercantilism emphasizing import-substituting industrialization while the second group's response was protectionism with no industrialization emphasis. There was a correlation between the response pattern and world economy position of the two groups. With a peripheral economy (meaning a weaker industrial base, among other things), the first group launched an import substitution drive. The Brazilian experiment in this regard was the most notable one in all Latin America and had some striking parallels to the Turkish case. In contrast, with a semi peripheral economy, the second group, especially Portugal and Spain, were inactive in industrial policy and watched their relative economic fortunes decline.

We observed the same correlation between response pattern and world-economy position in the Balkan context. Like Brazil and Mexico, the Balkan countries tried neomercantilism under conditions of a peripheral economy. How do we make sense of this? Beginning with Argentina, Portugal, and Spain, we fail to see a causal connection between their economic conservatism and semi-peripheral position. In the exceptional case of Spain, which saw two regime breakdowns (the "dictatorial" and democratic breakdowns in 1931 and 1939, respectively) and a civil war between them, there was not much time for economic innovation. While there were attempts at land reform during the democratic interlude, they faced the unbreakable resistance of the landed upper classes and their allies in the military.

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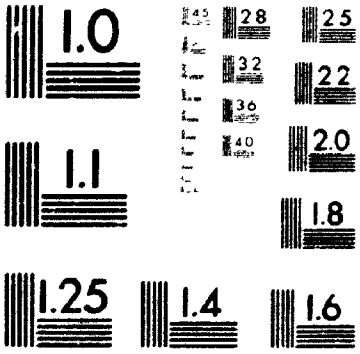

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The economic conservatism of Portugal is intriguing, given the fact that it drew so close to the semi-peripheral, but economically-innovative Italy at the level of political regime. I emphasize three factors in accounting for the economic divergence of Portuguese authoritarianism from its Italian counterpart. First, Portugal had large colonial possessions which made it content with its position in the interstate system. Second, in its commercial and financial sectors, the Portuguese economy had been tied to the UK economy since the 18th century. And, lastly, the economic base of Portuguese authoritarianism lay in a landed and commercial "oligarchy". Similarly, the UK and "oligarchic" connections played their roles in the economic conservatism of Argentine authoritarianism. Argentina was a full-fledged "White Dominion" in the commercial and financial sense of the term. Politically, however, it chose a "Latin American" course by installing an authoritarian regime, in 1930, whose main support base lay in the landed and commercial upper classes.

In the peripheral context, Brazil and Mexico diverged greatly in terms of the support bases of authoritarianism. In Brazil, the "revolution" of 1930 weakened the landed and commercial upper classes in the sense that they had to share political power in a broader upper-class alignment. In Mexico, by contrast, the landed and commercial upper classes had lost their privileged position early in the century (the Revolution of 1910). Their power base further eroded during the "popular front" period of 1934-40. Yet, during the same period, Mexico lagged way behind Brazil in import-substituting industrialization. That is to say, in terms of the expansion of the domestic market and the development of industrial classes, the anti-"oligarchic" Mexican authoritarianism

was much less successful than its pro-"oligarchic" Brazilian counterpart.

We observe a similar "anomaly" in the Balkans. While small-peasant ownership was the prevalent pattern in the agricultural sectors of all five Balkan countries, Turkey differed from the other four in that large landownership defined a sizable portion of its agricultural sector.[54] In fact, large landowners formed the main upper-class base of the Republican authoritarian regime from its inception in the early 1920s. And the regime did not attempt land reform either in the 1920s or in the 1930s. In contrast to Turkey, the other Balkan countries implemented a massive land redistribution program early in the century, thus casting the pattern of small-peasant ownership.[55] This being the case, Turkish neomercantilist response to the world economic crisis was more industrially-biased than its regional counterparts were. The key to Turkish "etatism" lay in the concurrence of a backward economy with a modern-authoritarian polity in which bureaucracy had the capacity to go against the demands of its "civil" allies.

The Great Depression was a stimulus for both authoritarianism and neomercantilism across the globe. With the exception of Germany, however, the authoritarian-neomercantilist shift was confined to the peripheral and semi-peripheral regions:

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[54] On patterns of landownership in Turkey, see Hershlag ([1958] 1968, pp. 32, 79); Keyder (1981, ch. 2; 1983); Silier (1981, pp. 67-70); Thornburg **et al**. (1949, p. 64).

[55] Whereas Greece dissolved large landownership before the end of the First World War (Freris 1986, p. 47); Bulgaria, Romania, and Yugoslavia achieved land reform as part of the "nostrification" program in the immediate post-War period (Berend 1985, pp. 152-62; Lampe & Jackson 1982, pp. 185, 351-4, 357; Singleton & Carter 1982, ch. 6; Teichova 1989, pp. 897-904; Turnock 1986, pp. 77-85).

notably, Southern and Central/Eastern Europe, and Latin America.[56] For the peripheral economies of Latin America and the Balkans in particular, the Great Depression was first and foremost a balance-of-payments crisis. In Brazil and the Balkan countries, the German clearing-trade drive not only offered a solution to this crisis but also compelled the autarkic shift. Yet, these countries also experimented with import substitution as a lasting solution to the balance-of-payments crisis. Brazil produced the most aggressive form of import-substituting industrialization in Latin America. Turkey did the same thing in the Balkans by diversifying its metropolitan connections.

In the next step, I emphasize the bureaucratic-authoritarian foundations of Turkish neomercantilism, "etatism" in particular. In doing this, I use the case of the "European" Balkans as contrast.

IN PURSUIT OF MODERNITY: TURKISH AUTHORITARIANISM

Like every other innovative experiment we have examined, Turkish "etatism" was both a break with and a bridge to the past. The forces underlying such an experiment had

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[56] On the role of the Great Depression in the authoritarian-neomercantilist shift across the peripheral and semi-peripheral countries of Southern/Central/Eastern Europe and Latin America, see Arrighi (1985b, pp. 254-62); Berend & Ranki (1974, pp. 298-9); Boratav (1981, pp. 186-9; [1974] 1982, pp. 283-4; 1983, pp. 270-1, 287; 1988a, pp. 48-9); Frank ([1967] 1969, p. 178); Giner (1982, pp. 185-91); Goldfrank (1978, pp. 102-12); Gulalp (1980, pp. 58-63; 1983, pp. 23-5, 64-9); Keyder ([1976] 1979, pp. 119-23); Ranki (1985, pp. 64-72); Tekeli & Ilkin (1977, p. 7); Wallerstein (1985, pp. 36-8).

a similar relationship with the past. If we can distinguish the "novel" forces, then we have the explanation of the "etatist" breakthrough. We have already identified and weighed the "external" part of these forces: the world-historical context involving the Great Crash in the West, the severe balance-of-payments crisis Turkey and other peripheral countries faced, the retreat of liberalism in its triple (economic, political, and ideological) sense, and the rise of authoritarianism and neomercantilism in Germany, Italy, and the Soviet Union. In what follows I emphasize the concurrent "domestic-historical" context which was defined by a very ambitious societal-modernization project.

At the centre of this project, which was designed and implemented by a "Jacobin" bureaucracy, was nation-building. In the world-historical crisis of the 1930s, the Turkish bureaucracy found a moment of opportunity to create a homogeneous nation-state out of the religious and ethnic mosaic of Anatolia. It took two crucial steps in this direction: secularization and "turkification". Turkish secularism was a unique phenomenon in the sense that the state took an anti-clerical stance (unlike its Western counterparts), on the one hand, and assumed direct and "monopolistic" clerical functions (unlike its Mediterranean/Latin counterparts), on the other. By organizing the orthodox version of Islam under a clerical bureaucracy, the state aimed to contain Islam as a whole. The crushing of all autonomous forms of Islamic organization, orthodox and heretical alike, was a complement to this policy of containment. As for "turkification", it involved language, "history", and the Kurds. The purification in language and "history" was a way of skipping six centuries of cosmopolitan Ottoman

heritage to reach a mythical Turkic past. At the same time, the "theories" developed in language and history were used to establish the "Turkishness" of the Kurds who, still unconvinced, would become the only centre of popular opposition to statocracy during the entire 1930s. A less sophisticated aspect of "turkification" policy regarding the Kurds was physical force which proved highly effective in crushing the Kurdish revolts during the period.

With its unique secularism and nationalism, the bureaucratic nation-building drive was the key "internal" factor both in the regime shift to modern-authoritarianism and in the policy shift to "etatism". On the one hand, drawing on the concurrent experiments in Continental Europe and even in the Soviet Union, the state tried to penetrate and regiment society in every direction, including universities, language, religion, the press, and in dress. As it tried to do so, the regime took a semi "totalitarian" turn. On the other hand, the state developed a parallel scheme regarding the economy in the form of "etatism". The innovativeness of the bureaucracy lay in the fact that it saw in the difficulties of the economic crisis a way to feed its whole modernization project.

Yet it is also true that the bureaucratic modernization project had a long "tradition" both in political and economic terms. In fact, when responding to the crisis, the Republican bureaucracy built on this tradition. Therefore, we need to take a brief look at the historical background of the political and economic innovation of the 1930s.

From Ottoman Cosmopolitanism to Turkish Nationalism

Since the beginnings of incorporation into the European economy and interstate system in the second half of the 18th century, the Ottoman/Turkish bureaucracy had been fixated with the idea of catching up with the "West". While the Ottoman economy became a peripheral appendage of the European economy in the mid-19th century, the bureaucracy managed to keep the state from being colonized by using the peripheral-integration rent for political modernization/centralization and by playing off one Western power against the other.[57] Until the 20th century, however, the bureaucratic modernization project remained cosmopolitan: a project based on the maintenance of the multi-ethnic and multi-religious make-up of the Ottoman community.

The Young Turk experiment of the 1910s broke with the cosmopolitan past and heralded a Turkic feature which would be defined by the Kemalist bureaucrats after the establishment of the Republic in 1923. With the Christian and even Arabic Muslim elements deserting the community, the Young Turks turned to the Turkish Muslim element to build a nation-state. They set two main examples for the Kemalist experiment of the 1920s and 1930s. First, politically, while coming to power through

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[57] There is a rich literature on Ottoman incorporation into the European economy and interstate system (and on bureaucratic response to this process). What follows is only an example of this literature: Anderson (1974, pp. 385-90); Ergil & Rhodes (1975); Inalcik (1964; 1977); Issawi (1980); Karpat (1968; 1972; 1973, pp. 36-51); Kasaba (1988); Keyder (1987, chs. 2, 3); Okyar (1987); Pamuk (1984; 1987); Quataert (1975; 1983); Shaw (1968); Shaw & Shaw (1977, chs. 1-3); Tekeli & Ilkin (1981, chs. 1, 2); Wallerstein (1989, ch. 3).

a quasi- democratic breakthrough in 1908, they became increasingly authoritarian and instituted a **de facto** one-party system in the course of their rule.[58] As the nucleus of the Young Turk movement, the Committee of Union and Progress (CUP) monopolized the executive power (the Porte) by incapacitating the palace and gaining the upper hand over the parliament. Under this system, the Young Turks introduced a series of reforms in the direction of secularization and "turkification", which Kemalists would resume with a much greater zeal.

The second example the Young Turks set for their Kemalist successors was in economic policy. While preaching Western liberalism in economy as in politics for a brief period, the Young Turks "decided" on German institutionalism. The first shift in economic policy was legislation to encourage industry in 1913. Compared with what was to come, however, this move was a modest one. Aligning with Germany in the First World War, the CUP leadership embarked on a course of "national economy". In part, the "national economy" was a war economy involving the regimentation of internal and external trade, monetary inflation, and internal borrowing. It was, however, notable for its measures aimed at creating a "native" bourgeoisie of Turkish Muslim origin through weakening the control of Western financial institutions (particularly, the Ottoman Bank, a **de facto** central bank under the joint French-UK ownership since 1863, and the Public Debt Administration, a "state within the state" founded by Western bondholders in 1881 following the Ottoman default of 1875) and local Greek/Armenian merchants over the economy. These measures included

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[58] Keyder (1987, p. 86); Shaw & Shaw (1977, ch. 4).

abrogation of the capitulations granted to foreigners and local non-Muslim elements, establishment of a commercial state bank to assume central-banking functions in the "future", encouragement of the Turkish Muslim element to organize economically (in the form of producer cooperatives and commercial banks), and introduction of a protective/specific tariff schedule.[59]

The Young Turks' was the only experiment comparable to the Kemalists' in all Ottoman/Turkish economic history. Although the overall Young Turk project ended in fiasco with the victory of the Allies in the War, the "national economy" achieved one of its main goals by strengthening the Turkish Muslim (and Jewish) element in the mercantile field. This, however, involved some "extra-economic" measures. During the War and at the hands of the Young Turk regime, the Armenian population suffered a heavy toll, which greatly damaged Anatolia's ethnic/religious diversity and entrepreneurial capability. The Allied occupation of Anatolia in the aftermath of the War sparked the national struggle organized by the Young Turks-turned-to-be-Kemalists who garnered the support of the local notables (most "notably", the landlords and merchants of Turkish and --in the case of landlords-- Kurdish Muslim origin) and that of Bolshevik Russia. The success of the national struggle meant "Asia Minor disaster" for Greece which had remained the only occupying force after the withdrawal of the Western powers. It meant also a second ethnic/religious shake-up of Anatolia in the

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[59] On the Young Turk experiment of the 1910s, see Ahmad (1988, pp. 267-83); Berkes (1964, pp. 335-7, 393-400, 423-7); Boratav (1988a, ch. 1); Ilkin (1975, pp. 539-42); Keyder ([1976] 1979, pp. 125-9; 1987, pp. 59-81); Kuyucak (1939, pp. 4-10); Okcun (1975, pp. 412-73); Tekeli & Ilkin (1981, ch. 3); especially Toprak (1982).

form of population exchange with Greece. Moreover, the "expatriation" of the local Greek population further weakened the entrepreneurial base of Anatolia.[60]

With the Armenian and Greek elements vanishing from the scene, Turks and Kurds remained the only sizable elements to define the demographic base of the new political entity, whose geographic base was reduced to Anatolia (and part of Thrace in the Balkans). The merchants and landlords, with whom the Kemalists had fashioned an alliance during the national struggle, formed the upper-class base of the new entity. Against this background, the Kemalists resumed the unfinished business left by the Young Turks.

As with the Young Turks, the Kemalists followed "liberal" economic policies early in their rule. In February-March 1923, when the Lausanne peace talks were in recess, they organized an economic congress sending a "liberal message" to the Allies.[61] Yet the congress was notable for its policy proposals formulated by the merchants, large farmers, and proto-industrialists. Merchants demanded the protection of the "national merchant" through increased state involvement in the commercial-banking field. Farmers demanded the abolition of the tithe, the main pillar of the Ottoman tax system. As for the "industrial group", they wanted tariff protection and fiscal incentives. Tariff protection would not come soon, partly because the Lausanne Treaty, signed later the same year, put constraints on Turkish foreign-trade policy for

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[60] Hershlag ([1958] 1968, p. 24); Keyder (1981, pp. 20-4).

[61] On this economic congress held in Izmir, see Boratav ([1974] 1982, p. 18); Finefrock (1981); Rozaliev (1962/1978, ch. 2); Tezel ([1982] 1986, pp. 130-3).

a period of five years.[62]

In other areas, however, the Republican government responded favourably to the demands of the mercantile, landed, and proto-industrial groups.[63] First, in response to these demands and as part of its modernization drive, the government introduced a series of juridico-legal reforms, including the recognition of full private ownership in land on a **de jure** basis (for the first time in Ottoman/Turkish history) and incorporation of the chambers of commerce and "industry" as professional public bodies. Second, the government established a commodity exchange and, as in the Young Turk period, encouraged "national", private commercial-banking.[64] A third element of the Republican private-sector preference in the 1920s was the industrial incentives program. And, lastly, the government abolished the tithe and introduced various incentives for export-oriented agricultural production.[65] This sector received lower freight rates, exemptions from customs duties for agricultural-implements imports, and better credits through state-owned Agricultural Bank.

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[62] For Turkey, another negative provision of the Lausanne Treaty was in monetary policy. The first series of paper money printed during the First World War was on gold deposited in German banks. But, the series lost its gold backing with the Versailles Treaty of 1919, according to which the Allies seized all German gold. Turkey had to accept this fact in the Lausanne Treaty (Ilkin 1975, p. 547; Kuyucak 1939, pp. 10-2; Tekeli & Ilkin 1981, p. 130).

[63] On general economic policy during the 1920s, see Boratav ([1974] 1982, ch. 1; 1988a, ch. 2); Hale (1984); Hershlag ([1958] 1968, chs. 2-4); Tekeli & Ilkin (1977, pp. 33-74); Tezel ([1982] 1986, ch. 4, and pp. 197-204, 317-21).

[64] Keyder (1981, ch. 5); Okcun (1975, pp. 439-43, 475); Silier (1975, pp. 491-523); Tekeli & Ilkin (1981, pp. 176-224).

[65] Keyder (1981, pp. 25-37); Onder (1988, p. 119); Silier (1981, ch. 1).

The government also took some initiatives to expand the state sector during the 1920s. Yet these initiatives were taken primarily with a view to promoting export-oriented agricultural production. For example, the state railways built during the period were concentrated in the cash-crop growing regions. As for the foreign-owned lines, no nationalization occurred until late in the 1920s. The government did, however, take over the Regie, the French-owned tobacco monopoly which had been the key element of the Ottoman Public Debt Administration. Yet, again, this measure aimed at providing a better, competitive marketing arrangement for export-oriented Turkish tobacco. The most notable development in state "industrial" activity during the period was the establishment of an investment bank which was, in turn, notable for its ineffectiveness. The bank's functions were limited to managing the four state factories established during the failed "Ottoman industrial revolution" of the 1840s.[66]

The liberalism of the Republican economic policy in the 1920s was, to some extent, a "reluctant" one. First, as we saw, the Lausanne Treaty prevented Turkey from developing an independent trade policy with regard to the signatory countries until 1929. Second, given the fact that the alliance fashioned with the landed and mercantile elements was crucial to the success of the national struggle, the bureaucracy had to "reward" its allies. And, third, due to the formativeness of the period which was preceded by protracted wars, the bureaucracy was in a weak position to assume control of the economy.

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[66] Boratav ([1974] 1982, pp. 82-3). On the "Ottoman industrial revolution" of the 1840s, see Clark (1974).

By and large, however, this economic liberalism in the form of private-sector bias and free-trade regime had the ideological support of the bureaucracy. Like the Italian fascists, but unlike the Soviet Bolsheviks who introduced the NEP (New Economic Policy) as a temporary retreat, the Kemalists were firmly committed to economic liberalization and responded accordingly to an expanding world economy in the early 1920s. For example, while Turkey was obliged by the Lausanne Treaty to apply the Ottoman tariff schedule of 1916 (which had lost its protective value) only to the signatory countries (the Allies), the Republican government applied this schedule also to those non-signatory countries with whom it struck trade agreements. Likewise, the government had the option of bypassing the provisions of the Treaty by making monopoly arrangements in the importation of certain consumer goods. It did make such arrangements but these were in the form of granting monopoly rights to foreign concessionaires. All in all, the Kemalists were favourable to foreign capital during the 1920s. And it was foreign merchant capital that controlled the export and import linkages of the economy. A symbolic development that capped the Kemalists' flirtation with liberalism were the initiatives, in the late 1920s, to establish a free trade zone and a Ford auto assembly plant in Istanbul.[67]

During the 1920s, economic openness went hand in hand with political closure. The fact that the Kemalists installed an authoritarian regime in the second half of the decade would prove to be their political asset when responding to the world economic crisis. This early push in authoritarian-regime installation was one of the factors that

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[67] On these two initiatives, see Keyder (1981, pp. 85-96).

distinguished the Turkish response from those of the other countries in the Balkans.

From the beginning of the national struggle in 1919 to the Kurdish rebellion of 1925, Turkey breathed an air of limited political openness as in the early Young Turk period.[68] While lacking a democratic intent, the Kemalist bureaucratic fraction "tolerated" a certain degree of pluralism in order to strike alliances with the local notables, including Islamic clerics, during the national struggle. And the first parliament in Ankara, whose nucleus was the last Ottoman parliament, had a diverse membership: landed and mercantile elements, clerics, intellectuals, as well as civil and military bureaucrats. This parliament functioned as a genuine mechanism of checks and balances during the national struggle. It was also in this parliament that a group of "liberal", conservative members came to define themselves in opposition to the Kemalist core group.

The Kemalists began to take the first steps in political closure with the international recognition of the new entity in the Lausanne Treaty. First came the exclusion of the "liberal", conservative group from the new parliament and the reorganization of the Kemalist "caucus" as the People's Party (later to be called the Republican People's Party, RPP). Even in this parliament, however, there was still a non-conformist, though much smaller, group advocating political pluralism. The new

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[68] On political developments in the 1920s, see Cavdar (1989); Frey (1965, pp. 306-13, 323-35); Keyder (1987, pp. 82-90); Koker (1990, pp. 73-92); Ozbudun (1981, pp. 80-7); Tuncay ([1981] 1989, esp. chs. 1, 2, and pp. 208-40); Zurcher (1984, chs. 5, 6).

opposition group would later form the Progressive Republican Party, PRP.[69] Second came the secularization campaign. After using the local Islamic clergy to maximize the appeal of the national struggle, Kemalists tried to minimize the appeal of Islam itself.

The Kurdish rebellion of 1925 marked the turning point in authoritarian regime shift. Passed immediately after the beginning of this rebellion, the Act for the Maintenance of Order opened a Turkish "Thermidor" which would last for some two years. While the rebellion was eventually crushed, it was instrumental in defining the entire political trajectory. Using the rebellion as an excuse, the Kemalist government suppressed all channels of legal opposition, including the PRP. This was accompanied by an escalation of the secularization campaign, including a terrorizing "hat revolution".[70] Like most other "Thermidor"s, however, the Turkish "Thermidor" was notable for its intra ruling-class terror. An alleged attempt on M. Kemal's life in 1926 instigated a mass (more correctly, bureaucracy-wide) prosecution from which no one, including his Prime Minister and comrade-in-arms, was immune. Yet the terror targeted the PRP leadership and everybody with a high-profile Young Turk past, i.e. CUP veterans. The CUP veterans and PRP leadership were purged through two separate show trials reminiscent of those in Moscow in the late 1930s.[71] Moreover,

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[69] For the program of the PRP ("Terakkiperver Cumhuriyet Firkasi'nin Programi"), see Tuncay ([1981] 1989, pp. 371-6).

[70] Seventy of those who defied the "hat revolution" paid the price with their lives (Zurcher 1984, p. 146).

[71] These two trials resulted in eighteen executions (Zurcher 1984, pp. 154, 156). When Dankwart A. Rustow (1959, pp. 543-9) claims that the formal separation of the military from political activity after the purges of 1926 revealed the "civilian" character of Kemalism, he is confusing the rule by "civilians" with the democratic rule.

the purges involved the economic institutions which were related to the Young Turk past.[72]

In order to understand this intra-bureaucratic terror, we need to refer to the divergence in political vision of the two fractions. Paradoxically, the Kemalists were closer than the PRP leadership and CUP veterans to the political project of the Young Turk CUP. What the Progressives stood for was a conservative, "liberal" polity respecting Islam as the common bond of the different ethnic groups that make up the bulk of the populace. This was equally true for the CUP veterans who, having seen the tragic end of the wartime "social engineering", became increasingly gradualist. In a sense, by simply trying to maintain whatever social diversity was left, the conservative wing of the bureaucracy came to espouse political pluralism. In contrast, the Kemalists embraced the levellers' tradition of the wartime CUP experiment.

We should, however, point out a significant difference between the Kemalist RPP and the Young Turk CUP. The CUP was a genuine mass party with high levels of popular articulation and mobilization, and, in this regard, remains a distinct phenomenon in Ottoman/Turkish political history. A second feature of the CUP was its "collegial" leadership composed of a triumvirate.[73] After fleeing the country at the end of the First World War, one of them tried and failed to organize an alternative,

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[72] In 1927, Kemalists' model "private" bank (Business Bank) absorbed the commercial state bank which was established as a prospective central bank by the Young Turks in 1917. The fate of a trading company established by the CUP veterans in 1922 was slightly different. Its activities came to an end in the 1930s (Ilkin 1971).

[73] Tuncay ([1981] 1989, ch. 1).

"left-wing" national struggle to M. Kemal's.[74] The Kemalist leadership, who held only middle- and low-ranking positions within the Young Turk movement and assumed no political responsibility during the War, got the upper hand by using the local CUP networks as a lever for organizing the national struggle. As it came to being in this struggle, the RPP had two features that stood in marked contrast to the CUP. First, it was an in-door, "congress" party wary of the out-door, popular-rally activities. In this respect, it was similar to the Soviet Communist Party, and differed radically from the German Nazi and Italian Fascist parties. And, second, as opposed to the "collegial" leadership of the CUP, the RPP was defined by one-man leadership. After the purges of 1926, MPs were effectively hand-picked by M. Kemal himself while the "two-stage, indirect electoral system" of the previous periods was maintained.[75]

With the consolidation of the monoparty rule in the late 1920s, the intra-bureaucratic struggle subsided politically, but not economically. At the level of economic policy, the intra-bureaucratic struggle became in fact the main form of "domestic-group" contestation during the Great Depression. The "politics of etatism" would revolve around a narrowly-defined "moderate-radical" differentiation within the Kemalist bureaucracy. It is to this process we now shift our focus.

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[74] Zurcher (1984, ch. 5).

[75] As it was applied during the Ottoman Constitutional (1876-8 and 1908-19) and pre-1946 Republican periods, the "two-stage, indirect electoral system" worked like this: a limited group of voters elected a college of electors who then elected the MPs. On this, see Ahmad (1977, p. 3); Devereux (1963); Frey (1965, ch. 11); Tunaya (1954).

"Etatism" as a Bureaucratic Project

The first area of intra-bureaucratic contestation was central-banking. When in 1925 the term of the Ottoman Bank expired as a foreign concessionaire performing central-banking functions, the government extended this term for another ten years with a proviso that the Bank would not "object" to the establishment of a national central bank. In the late 1920s, two bureaucratic projects emerged with regard to the ownership of the national central bank to be established.[76] The first project belonged to the "moderate" bureaucrats who had close connections with the "model" private commercial bank (Business Bank) established in 1924. They simply wanted this bank to assume central-banking functions while maintaining its current status. The second project belonged to the "radicals" who derived their strength from political office. This group wanted an exclusively central-banking institution controlled by the state. Both groups referred to foreign expert advice to strengthen their case.[77] The establishment

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[76] Ilkin (1975, pp. 542-62); Tekeli & Ilkin (1981, ch. 5).

[77] In 1928, the Business Bank commissioned a report from a Dutch expert and made its own case (through a report written by M. Celal, President of the Bank and Minister of Economy after 1932). For the texts of the Dutch and Business Bank reports, see Tekeli & Ilkin (1981, apps. 2, 3, respectively). As for the government, it invited a representative of the German central bank, Reichsbank, to Turkey in April-June 1929. The German representative's report of January 1930 (prefaced by Hjalmar Schacht, President of the Reichsbank, and Minister of "Economics" and the architect of the New Plan under the Nazis), was not supportive of the government's central-bank project. Later, the government referred to two more foreign advices, which were in favour of the project: an Italian expert's visit to Turkey in November 1929, and a Swiss expert's report on the Central Bank Bill in May 1930. For the texts of the German and Swiss reports, see Tekeli & Ilkin (1981, apps. 4, 14, respectively). A

(continued...)

in June 1930 of the Central Bank, though not fully state-owned, was the outcome of a struggle in which the "radicals" gained the upper hand over the "moderates".

This did not, however, mean an "etatist" shift in Turkish economic policy. The way the Central Bank was funded was a telling indication of the continuation of the "liberal" trends in the early years of the Great Depression. After establishing state monopoly in the production and marketing of matches and lighters in June 1929, the government handed over this monopoly, for a period of 25 years, to a foreign concessionaire controlled by the Swedish Kreuger group in June 1930. And the loan received in return for this monopoly was used as the capital of the Central Bank.[78] Earlier the same year, the government prepared two internal reports and sponsored an industrial congress in search of an economic strategy under crisis conditions. Yet both the official reports and the semi-official industrial congress recommended nothing more than the continuation and enhancement of state encouragement for private industry.[79]

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[77](...continued)
foreign guest "unwelcome" by the government was Charles Rist (an influential French economist) who came, in the summer of 1930, as the representative of Ottoman bondholders and to report on Turkey's solvency in servicing its share of Ottoman debts. When Rist finished his report, which was critical of the government's central-bank project, the Central Bank Bill had already been passed in the parliament. For the text of this report, see Tekeli & Ilkin (1977, pp. 631-74).

[78] On this foreign concessionaire called the American-Turkish Investment Corporation, see Boratav ([1974] 1982, pp. 85-6).

[79] Moreover, both of these government reports, had such recommendations as the establishment of free trade zones and the encouragement of foreign direct investment as well. For the texts of the reports, namely ("Iktisadi Vaziyetimize Dair Rapor"/Report on Our Economic Situation [March 4, 1930]) and ("Iktisadi Program"/Economic Program [April 12, 1930]), see Tekeli & Ilkin (1977, pp. 227-559, 561-72, respectively). But the industrial congress of April 1930, organized by a semi-official association
(continued...)

Moreover, an agricultural congress held in 1931 proposed export promotion as the only solution to the crisis.[80]

Yet it was also in 1930-1 when politics once again surged ahead of policy. The political developments in these years would in turn pave the way for the "etatist" breakthrough of mid-1932. The only notable change in state industrial policy prior to 1932 were tariff increases and import restrictions, measures taken out of necessity. While these and other measures (e.g., exchange controls) aiming to ease the balance-of-payments crisis resulted in economic closure, they did not bring about any increase in state industrial activity. With its industrialization drive, the state tried to close this gap.

The first important political development in 1930 was a Kurdish rebellion in the East.[81] While the Kemalists crushed this rebellion in mid-1930, the political experiment they made afterwards differed from the 1925 experiment. In August 1930, with a Presidential fiat, a group of MPs left the state party (RPP) and formed the Free Republican Party (FRP) to play the role of economic-policy critic in the parliament --a move indicative of the bureaucracy's dissatisfaction with the current policy course. This move had an unintended consequence in that the FRP not only critiqued the

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[79](...continued)
for national economy and parsimony ("Milli Iktisat ve Tasarruf Cemiyeti" which was established, in December 1929, following the "exchange crisis" in the summer of the same year), had a more nationalistic agenda including a ten-year program for the encouragement of the exclusively national private industries (Tekeli & Ilkin 1977, pp. 121-4).

[80] Keyder (1981, pp. 42-3).

[81] Besikci ({1978} 1991, ch. 3); Tuncay ([1981] 1989, pp. 241-3).

government's economic policy from a "liberal" perspective but also came to represent the political discontent among the populace.[82] The bureaucratic response was in the form of uttering the word "etatism" and a government reshuffle strengthening the "radicals". What brought the FRP experiment to an end was the "unexpected" showing of the Party in the municipal elections held later the same year in a relatively open political environment. In November 1930, the Party "dissolved itself". A third political development of this year involved the sphere of religion. A local incident in itself, the killing of a "secular" schoolteacher by Islamic "reactionaries" in Western Turkey was perceived as a matter of urgent threat to the "revolutions" and was responded to accordingly.[83]

Drawing conclusions from the Kurdish rebellion, the FRP experiment, and the Islamic "reaction", the Kemalist bureaucracy began to refashion its project along totalitarian lines in 1931.[84] The first move in this direction was the reorganization of the state party on a more programmatic basis. In the first party program drawn in May 1931, the RPP adopted "etatism" as its economic principle and declared Turkey a

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[82] Ilkin (1978, pp. 255-62); Tekeli & Ilkin (1977, ch. 9); Tuncay ([1981] 1989, pp. 245-73); Weiker (1973). For the program of the FRP ("Serbest Cumhuriyet Firkasi'nin Programi"), see Tuncay ([1981] 1989, pp. 404-5).

[83] Tuncay ([1981] 1989, pp. 293-5).

[84] On general political structuration after the FRP experiment, see Keyder (1979; 1987, pp. 96-100, 108-9); Tekeli & Ilkin (1977, chs. 11-2); Tuncay ([1981] 1989, ch. 5); Webster (1939, chs. 12, 16); Weiker (1973, ch. 13); Yerasimos (1987, pp. 77-92); Yetkin (1983, ch. 1).

"classless society" composed of occupational orders.[85] This occupational-order "reality" had been taken into account in the selection of MPs for the new parliament a month earlier. For example, a few high-profile writers and journalists joined the parliament to represent the workers.[86] Related to the "corporatist" shift in representation were a new legislation to give a uniform shape to the press and the closure of cultural associations established during the Young Turk period. These associations were replaced by uniform RPP clubs, the so-called People's Houses modelled after the examples in authoritarian Europe.[87]

Simultaneous to the reorganization of the state party were the launching of a sweeping purification (i.e., "turkification") program and further experiments with militant secularism. At the "historical" level, the purification program was designed to establish bridges with a distant Turkic past in Asia by skipping everything "un-Turk" along the way. Later, in the mid-1930s, the Kemalists would take a more pragmatic approach by discovering the "Turkishness" of all ancient peoples and civilizations in Anatolian-Mesopotamian geography.. Similarly, the linguistic purification program began with an attempt to eliminate the foreign (Arabic, Persian, and Western) words

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[85] For the 1931 program of the RPP ("C.H.F.: Program"), see Tuncay ([1981] 1989, pp. 447-54).

[86] Like its European and Latin American counterparts, Turkish authoritarianism used corporatism as its rhetoric. And this rhetoric is the fodder of an academic project to invent a Turkish corporatism. See, e.g., Belge (1989, pp. 129-31); Bianchi (1984, chs. 3, 4); Parla (1985, chs. 4-8). Both for this academic project and for the corporatist rhetoric of Kemalism, the original fodder were the writings of Ziya Gokalp, architect of the Young Turk ideology (1959, pp. 306-13; 1923/1968, chs. 13, 16).

[87] Houminer (1965); Karpat (1963); Webster (1939, pp. 186-93); Weiker (1973, ch. 12).

in Turkish and came to establish the "Turkishness" of some of these words, especially those borrowed from the Western languages.[88] As for secularization, it involved the "turkification" of Islamic practices, on the one hand, and the conception of a secular religion in the form of Kemalism, on the other.[89]

The economic component of the modernization project was industrialization or "etatism" in general. In July 1932, the bureaucracy redefined its industrial role by cancelling the tariff exemptions for machinery and equipment imports by private businesses, and by establishing two new agencies for banking and management (the Industrial Credit Bank and Office for State Industries to replace the Bank for Industry and Mining). When located in their broader context, these measures can be seen as an attempt to close the gap between a "modernized" polity and a backward economy through the penetration of the latter. Thus, for bureaucracy, industrialization was both an end in itself and a means to broadening the sphere of control.

The bureaucracy was not, however, without its divisions over the definition of "etatism".[90] For the more **dirigiste** fraction ("radicals"), state intervention in the economy was not just a matter of guiding the private sector. The state also had a role to play at the level of ownership and entrepreneurship on a permanent basis. It was

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[88] On the "historical" and linguistic "revolutions", see Besikci ([1978] 1991, chs. 1, 2); Weiker (1973, ch. 14).

[89] Toprak (1981, pp. 1-4, 56-7, 123); Tuncay ([1981] 1989, pp. 219, 325).

[90] Nor are the students of Turkish economic history without their divisions over the same issue. Whereas one group (Avcioglu [1968] 1977, p. 445; Hershlag 1984) sees "etatism" as a "preconceived" strategy, another group (Cem 1970, pp. 288-318; Okyar 1965, pp. 100-1; Tezel [1982] 1986, pp. 207-11, 398) sees it as a "necessary" adjustment to the crisis.

this fraction who established the Soviet industrial/financial connection and took the July initiatives.[91] As for the "moderates", they saw the main thrust of state economic intervention in its guidance of the private sector while acknowledging that the state had a role to play at the level of industrial ownership and entrepreneurship when and if necessary.[92]

The intra-bureaucratic contestation over industrial policy intensified for a short period after the July initiatives. Articulating the concerns of the private sector, the "moderates" opposed the cancellation of the tariff exemptions for private industries and the new form of state industrial/financial organization.[93] They were successful in restoring the **status quo ante**, at least in organizational terms. The establishment of

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[91] While some (see, e.g., Tezel [1982] 1986, p. 250) dub the July initiatives as a "techno-bureaucratic fantasy" with the help of hindsight, we should point out that, before taking these initiatives, the "radicals" had a period of deliberations on industrial strategy to be adopted. For example, in a report presented to the General Secretary of the RPP in November 1931, industrial planning and two new institutions --a management office and a credit bank-- were proposed (for this report, see Tekeli & Ilkin 1982, app. 3). Moreover, a delegation headed by the Prime Minister, a "radical" himself, visited the Soviet Union and Italy in the months leading up to the July "offensive". The motive behind these visits was "learning" as much as it was the search for industrial credit (Tekeli & Ilkin 1982, pp. 137-43).

[92] On the "moderate-radical" differentiation in bureaucratic economic ideology, see Boratav ([1974] 1982, pp. 119-79); Hale (1980, p. 108); Koker (1990, pp. 93-103); Tekeli & Ilkin (1982, ch. 3).

At this point, we should mention an intellectual project developed in the early 1930s. Encouraged by the "radical" initiatives in economic policy, a group of (ex-communist) intellectuals began to advertise "etatism" as an alternative form of economic organization to capitalism and socialism. This project was, however, "too radical" even for the "radical" bureaucrats and the group "dissolved itself" in early 1935 (Gulalp 1983, pp. 89-94; Karpat 1959, pp. 70-2; Kerwin 1959, pp. 239-40; Weiker 1973, pp. 222-7; Yetkin 1983, pp. 112-27).

[93] Boratav ([1974] 1982, p. 107); Tekeli & Ilkin (1982, pp. 155-8, 170-1, 215, 234, and apps. 6, 7).

the Sumerbank as a holding company in June 1933 brought back the old arrangement combining banking and management (and, in part, the tariff exemptions). As it turned out, however, state ownership and entrepreneurship became increasingly "necessary" with the "moderates" at the helm in industrial policy. It was the economic "moderates" who fashioned "actually existing etatism" including the industrial plan launched in April 1934.[94] After the transition to industrial planning, economic policy was no longer an issue of contestation within the bureaucracy.

Despite their differences in economic ideology, the two bureaucratic fractions converged in economic policy. Why, then, did the differences in ideology not translate into policy? I identify four reasons for this "gap". First, the metropolitan context within

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[94] The Soviet industrial credit and expertise played a critical role in the launching of the (first five-year) industrial plan. In May 1932, the Soviet Union and Turkey concluded an industrial credit agreement through which Turkey would purchase Soviet textile machinery worth of eight million US (gold) dollars to be repaid without interest by Turkish commodity exports within a period of twenty years. Later in 1933, the Soviet Union established a monopoly agency, Turkstroj, to be responsible for this particular credit program and the economic relations with Turkey in general. Following the credit agreement, the two countries began to exchange technical delegations with a view to drawing up plans for industrial investment in Turkey. The most notable development in this regard were the explorations of the Soviet experts in Turkey from August to November 1932. After completing their work, these experts submitted to the Turkish government a number of reports on investment in textiles, chemicals, and iron and steel works. The Soviet technical reports would be a guideline for the Turkish government in preparing the industrial plan. For these reports, see Tekeli & Ilkin (1982, app. 5). On the Soviet connection in general, see Hershlag (1954, p. 324; [1958] 1968, pp. 62-4); Kerwin (1951, p. 23); Okyar (1965, p. 99); Rozaliyev (1962/1978, pp. 174-86).

Before launching the plan, the government also invited a US delegation of experts on industry, a move amounting to "double-checking". The report of the US delegation was, however, both late (it came only after the plan was launched) and "anti-industrial" in its recommendations (Tekeli & Ilkin 1982, pp. 172-5; Tezel [1982] 1986, p. 252).

which Turkey was located was not favourable to the "moderate" scenario, a private sector-based industrialization. Secondly, in its sectoral profile, the economy put limits both on this scenario and on the "radical" scenario which involved "etatism in agriculture". In order for industrialization to "take off", the state had to assume an entrepreneurial role through primitive accumulation given the low level of private accumulation in the urban sector. The agricultural sector, which was the source of primitive accumulation, was not permeable to "etatism", however. The absence of land reform (not to mention collectivization) during the 1930s had to do less with the landlord "resistance" than with the prevalence of small-peasant ownership and production.[95]

A third factor accounting for the convergence of the two bureaucratic fractions in economic **dirigisme** was the commonality of their interests. As the major organized "interest group" in the society, the bureaucracy could not afford the luxury of infighting over economic policy.[96] Finally, and most critically, both fractions of the bureaucracy were equally committed to the authoritarian nation-building process involving militant secularism, "turkification", and the unification of powers. Immediately after resolving the economic question, the bureaucracy returned to the

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[95] The prevalent imagery in Turkish economic historiography is, however, a landlord class dominating the agricultural sector. See, e.g., Avcioglu ([1968] 1977, p. 485); Berberoglu (1982, pp. 44-7); Ramazanoglu (1985, pp. 63-6); Trimberger (1978, pp. 107-13, 123).

[96] When such Weberians as Ali Kazancigil (1981, pp. 44-53; 1986, pp. 177-85), Serif Mardin (1973; 1980, pp. 31-43), and Ergun Ozbudun (1980, pp. 56-64) confine the bureaucracy to a "political centre" and every other group in the society to an "economic periphery", they overlook this economic/class aspect of the bureaucracy.

political question to give a new height both to the unification of the state and party structures and to the "turkification" of the Kurds.[97] A symbolic development which capped the economic psyche of the decade was the Constitutional entrenchment, in 1937, of "etatism" as one of the principles of the Republic.

The interwar experiences of the other four Balkan countries differed from that of Turkey in political, as well as economic, terms. Unlike Turkey, these countries embarked on a course of political opening after the First World War. Bulgaria, a loser of the War, saw the (re-)emergence of a genuinely agrarian populist movement, Agrarian National Union, which was reminiscent of the "third parties" based in Western Canada.[98] In fact, the Agrarians were in power between 1919 and 1923, during which they gave a big spurt to agricultural credit cooperatives. The coup of 1923 overthrew the Agrarian government and restored the old order defined by a conservative alliance of the bureaucratic and commercial interests. However bloody it was, the coup did not eradicate political pluralism altogether, given its conservative nature.[99] Even in the early 1930s, a semblance of political-party contestation was maintained. It was only with the "monarcho-fascist" coup of 1935 that Bulgaria took a definite turn towards dictatorship.

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[97] Besikci ([1990] 1991); Karpat (1959, pp. 72-4); Ozbudun (1981, pp. 87-98); Tuncay ([1981] 1989, p. 322); Webster (1939, apps. D, E).

[98] On Bulgarian agrarian populism, see Lampe (1986, pp. 30, 50, 71); Lampe & Jackson (1982, pp. 197-201).

[99] For example, the underground Communist Party was able to establish a legal, surrogate Workers' Party in 1927 (Lampe 1986, p. 50).

In Greece, the "Asia Minor disaster" served as a catalyst for political opening which was symbolized by the foundation of the (First) Republic in 1924. The Republic broadened the sphere of political participation both in parliamentary and party/union terms, drawing on the clientelistic networks established during the "oligarchic" period.[100] With the "monarcho-fascist" Metaxas dictatorship installed in 1936, the Republican period came to an end. While dissolving the parliament and political parties, the Metaxas dictatorship maintained the networks of patron-client relationships amid a fanfare of "totalitarian" rhetoric.[101]

Like Bulgaria and Greece, Romania and Yugoslavia achieved a quasi democratic breakthrough in the immediate postwar period.[102] As a creation of the War, Yugoslavia adopted a monarchic constitutional system allowing political-party contestation. Romania did the same as a winner of the War. Likewise, both countries shifted from monarchic constitutionalism to dictatorship later in the interwar period. Yugoslavia was an "early-comer" in this respect: in 1929, it installed a monarchic dictatorship by dissolving the parliament and political parties. In Romania, where a process of political closure had been underway since 1933, monarchic dictatorship came only in 1938.

Unlike Turkey, the "European" Balkan countries experienced a quasi-democratic breakthrough and then a quasi-democratic breakdown during the interwar period. In

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[100] Mouzelis (1986, chs. 1, 2).

[101] Freris (1986, p. 17).

[102] See Turnock (1986, ch. 3) for Romania; Singleton & Carter (1982, ch. 3) for Yugoslavia; Janos (1970) for both.

the 1920s, these countries made the same headway in political opening as Turkey did in political closure. In the 1930s, there was a relative convergence of the political trajectories in the Balkans at large. Compared with Turkey's Republican dictatorship, however, the so-called "monarcho-fascist" dictatorships installed in the "European" Balkans (save Greece) were conservative.[103] It is true that the main force behind all five dictatorships was a bureaucracy characterized by two crucial traits: a "domestic-group" status and an anti-clerical, modernizing mission. The main divide in this respect was again oetween Turkey and the "European" Balkans. Compared with their Turkish counterpart, the other Balkan bureaucracies had a weak "domestic-group" status and a very modest modernizing mission. Consequently, they did not show the political and economic **dirigisme** which their Turkish counterpart showed.

SUMMING UP

In making sense of the convergence of the Balkan countries in neomercantilism, I emphasized their common geo-social context and their common position in the world economy. With their peripheral economies, these countries experienced the Great Depression as a balance-of-payments crisis expressed in terms of difficulties in exporting primary goods and importing manufactured goods and capital. Economic closure in the region was a consequence of the balance-of-payments crisis and the

[103] As Andrew C. Janos (1970, pp. 219-24) points out, the radical, fascist movements that emerged in the northern Balkans remained fringe elements until the Second World War.

protectionist state policies. Critical to the autarkic shift was the coincidence of this crisis with the clearing-trade offensive of Germany, the main metropolitan centre for the region as a whole. Autarky came with the compulsion of the crisis and German neomercantilism while authoritarianism prepared the necessary political infrastructure.

In the Balkan context, autarky took a paradoxical meaning in the form of dependence on Germany. A second component of Balkan neomercantilism was import-substituting industrialization which meant a domestic solution to the balance-of-payments crisis and, thus, an alternative to "autarkic" dependence on Germany. In their industrialization drive, the "European" Balkan countries relied on the existing financial institutions organized along Continental-European lines whereas Turkey created new ones along similar lines. Turkey differed from the rest of the Balkans in industrial policy in that it experimented with planning and gave the state the leading role at the level of ownership and entrepreneurship ("etatism").

The key to the specificity of Turkish industrial policy lay in the concurrence of economic backwardness and political modernization. Compared with the rest of the Balkans, Turkey had a more agriculturally-based economy and a more authoritarian ("modernized") polity. The bureaucracy, which occupied the centre stage both in the polity and economy, tried to close the gap between the two through a **dirigiste** industrialization program. In other words, it incorporated "etatism" into its historical modernization project. While acquiring a "domestic-group" status as in the Turkish case, the other Balkan bureaucracies had a smaller space for manoeuvring both in political and economic terms, given the existence of a stronger private domestic-group

base. Turkey's "higher degree" of economic backwardness and authoritarian-political modernization was the key factor accounting for the more aggressive characteristics of its neomercantilism.

CHAPTER 7

CONCLUSION

In making economic policy during the 1930s, some states proved to be innovative and others, conservative. The innovators did not, however, break completely with their past. Nor did the conservatives replicate their own past. What distinguished the economic policies of the first group from those of the second, then? The innovativeness of the first group of states (large and small alike) lay in their realization of a policy option which was not necessary but possible within the limits set by the world-historical context, political-regime type, and position in the world economy. In contrast, the conservativeness of the second group of states lay in their "failure" to shift from the necessary to possible option within the same limits.

The limit the world-historical context of the 1930s set on economic policy at the paradigmatic level was in terms of excluding classical liberalism and of including protectionism, protofordism, and neomercantilism. The political-regime type set a further limit on economic policy at the same level: protofordism was possible only under democracy (liberal or corporatist); neomercantilism, only under dictatorship (traditional or modern); but protectionism, both under democracy and under dictatorship. As for position in the world economy, it set limit on macroeconomic policy in particular. Demand stimulus was not possible in countries with a peripheral economy. It was, however, an option for countries with a core or semi-peripheral

economy.

To put it differently, protectionism meant conservatism both under democracy and under dictatorship. Protofordism amounted to innovation under democracy; and neomercantilism, under dictatorship. In the metropolitan-democratic context, the United Kingdom furnished the prime example of conservatism whereas France made an unsuccessful push for innovation. The United States succeeded where France failed. Those metropolitan countries under dictatorship were innovators **en bloc** --Germany, Italy, Japan, and the Soviet Union. In the small-state context, the neomercantilist innovation came mainly from the Balkans and Latin America. Similarly, the protofordist innovation originated from Europe's "small" democracies, especially those in Scandinavia. Conservatism held sway in most "small" dictatorships and in such "small" democracies as the British White Dominions, most notably Canada.

The political-regime and financial-system mediation of domestic-group demands were critical to both innovation and conservatism in the metropolitan context. Whereas the liberal democracies and traditional(-authoritarian) dictatorships discouraged innovation, the corporatist democracies and modern(-authoritarian) dictatorships were facilitative of innovation. Financial systems played a similar mediatory role at the macroeconomic level in particular. Innovation was more likely under the industrially-oriented systems than under the commercially-oriented systems. In the case of small states, a third critical factor were the imperial/metropolitan linkages. Together with the political-regime and financial-system types, the imperial/metropolitan linkages defined the geo-social context of small states. It was this context that determined the efficacy

of domestic groups in bringing about economic innovation or "conservatism" during the Great Depression.

In Canada, which witnessed one of the most severe and most protracted economic downturns in the world, federal economic policies both under the Liberal and Conservative governments were in sharp contrast to those demanded by those groups who suffered the most. As the key to Canada's economic performance, the export sector (wheat farmers, resource industries) wanted cheap credit, devaluation, and lower industrial tariffs. Likewise, the unemployed, who were concentrated in the export sector, wanted public works programs and unemployment insurance. The government response to the first group of demands was strictly deflationary, letting the dollar fluctuate between the UK pound sterling and US dollar (no devaluation for export promotion), and higher industrial tariffs. As for the second group of demands, the federal government chose direct relief (i.e. the "dole") over public works programs and left the practical responsibility to the provincial and municipal governments. Canadians were given a federal unemployment insurance program, not during the crisis, but when war arrived.

Why did these groups not get what they wanted? Were they a losing producer-group coalition against a winning one? It is true that producer groups (manufacturing industries and workers with them) in the domestic sector enjoyed tariff protection and, hence, did not suffer as much as those in the export sector did. This did not, however, pit the "macroeconomic" interests of the former groups against those of the latter. On

the contrary, within the context of Canada's general and severe economic downturn, the interests of all producer groups lay in countercyclical monetary and fiscal policies. In fact, no producer group was fervently supportive of government orthodoxy and all were receptive to such policies. The fact that federal governments stayed on an orthodox course during the depression years had to do, first, with the lack of an organic connection between the financial and productive sectors. While every productive sector more or less shared the burden of the depression, the financial sector, which had no investment interest in industry, came out of the depression unscathed. A small number of "chartered" commercial banks, organized along branch-banking lines, dominated this sector and were the staunchest supporters of deflation and retrenchment.

Canada's conservative response to the world economic crisis was despite, not because of the lack of, a strong political mobilization for innovation. Towards the mid-1930s, Canada saw an unusual mobilization of farmers, workers, the unemployed, and small business circles. A number of political parties representing these groups separately or in combination campaigned fervently for a change of economic-policy direction. The union movement was on the threshold of a historical shift towards national-industrial unionism away from US-craft unionism. Neither the union movement nor any of those political parties could, however, reach the levers of federal policy-making during the 1930s.

Yes, Canadian labour movement was weak by Western European and Antipodean, if not North American, standards. The level of unionization was low and

the union movement was divided along a number of lines: sectoral, ethnic, political, and ideological. Moreover, there was no labour party to play an effective oppositional, let alone a governing, role at the federal level

The CCF (Co-operative Commonwealth Federation) emerged by claiming to represent farmers, workers, and every other group outside "big business". Although the CCF, and the other "third parties" that sprang up in the mid-1930s, garnered significant popular support, Canada's majoritarian electoral system reduced this popular support to a level of insignificance in parliamentary terms.

In contrast to Canada, the United Kingdom and the two Antipodean Dominions had united and strong labour movements both at the union and party levels. Moreover, the UK and Australian labour parties were in government from 1929 to 1931, whereas their New Zealand counterpart began to govern after 1935. Among the three, only the New Zealand Labour government was innovative in that it supplemented tariff protection with social protection and took interventionist measures at the microeconomic level. The Australian (federal) Labor government applied wage reductions by relying on tariff protection. In the United Kingdom, the Labour government stuck with the principles of 19th-century liberalism and paved the way for Conservative-dominated "National" governments, while the third-place Liberal Party, weak in parliamentary seats but not in popular votes, campaigned unsuccessfully for expansionary financing.

Approached from this geo-social perspective, the weakness of the Canadian labour movement should not be seen as critical either for its policy ineffectiveness or

for the conservative content of the federal economic response to the crisis. The underlying reason for both outcomes can be traced to the political, as well as financial, arrangements which defined Canada. What characterized Canada's liberal polity were, most notably, majoritarianism (in electoral and parliamentary terms), Constitutional dependence on the United Kingdom, and an elitist mode of accommodation between the two European-settler groups (namely, the Anglophone and the Francophone). In such a semi-sovereign, liberal polity mixed with elitism, workers and other popular groups had no channels of group representation. To respond aggressively to an economic shock was extremely difficult, if not impossible, course to take. A case in point was the fate of the 1935 "New Deal" legislation, a protofordist policy package introduced by Conservative Prime Minister R. B. Bennett and modelled after the US New Deal. There was, however, neither the Constitutional "consensus" nor the political "will" to implement the legislation. And it was subsequently cancelled by Canada's highest court which was sitting in the United Kingdom.

Like Canada, the United States had, among other things, a weak labour movement, an extremely severe economic downturn, and a federal state organization. Unlike Canada, the United Kingdom, Australia, and New Zealand, it produced a bold experiment in the form of New Deal, which benefited not just "big business" but also the unemployed, workers, and farmers. How was the protofordist New Deal struck in a country like the United States where conservative, craft unionism dominated a weak union movement and where there was not even a farmer-labour party of the Canadian CCF-type? To make sense of this, I emphasize the corporatist features of the US

representational processes at the party, Congressional, and Presidential levels. Regardless of their size and strength, domestic groups were able to articulate their interests at all three levels. The New Deal coalition was in fact a loose alignment of diverse groups assembled within the Democratic Party and rewarded by a Democratic administration. As for the macroeconomic activism of the New Deal, the Democratic administration had a strong reason to act: the banking sector collapsed in parallel to the industrial and agricultural sectors.

The Popular Front of Socialists, Communists, and Radicals tried to deliver a similar new deal for France. Yet the "Blum experiment" of the Front government was an abrupt failure despite the fact that it had the backing of a wide range of forces -- major unions, small farmers, urban artisanal producers, and an "enlightened" section of the bourgeoisie. That the Front government abandoned the "Blum experiment" even before it abandoned the office should be explained with the incompleteness of French political institutions for a protofordist settlement. France lacked those US-style (loose) and Scandinavian-style (compact) institutions which are open to divergent interests.

Sweden produced the exemplary case of protofordism against a background of mild economic downturn. An outstanding feature of Swedish production groups was that each one of them had a united and strong "movement". To put it as a general rule, workers were organized under the sectoral-political umbrella of the LO (Trade Union Confederation) and SAP (Social Democratic Labour Party); employers, of the SAF (Swedish Employers' Federation) and Conservative Party; and farmers, of the cooperatives/associations and Agrarian Party. The protofordist "achievement" of the

1930s was composed of the difference between what these groups wanted and what they got on the part of economic policy. And, I argue, this difference was a combined outcome of the corporatist political structures, organic finance-industry connections, and the volatile metropolitan context within which Sweden was located.

In its union and party wings, the labour movement wanted free trade both in industry and agriculture, abolition of the relief works programs and of the AK (Unemployment Commission) which organized these programs, establishment of open market-based public works programs against unemployment (which was high among the unionized workers) and of a public agency to take care of the new programs and other labour-market issues. Unemployment insurance and progressive taxation were among the other things labour wanted. Employers, by contrast, wanted continuation of the AK, lower taxation, and wage restraint --this last demand was pushed for especially by those employers in the export sector. As for the agrarians, their policy demands consisted of external protection and internal subsidization of the agricultural sector.

Concerning these divergent policy demands, there were two main (and a number of **ad hoc**) compromises: (a) the 1933 crisis agreement ("cow deal") struck between the governing Social Democrats and the opposition Agrarians; and the 1938 Saltsjobaden agreement (basic agreement) struck between the LO and the SAF. In the crisis agreement, Social Democrats got only a scaled-down version of the deficit-financed public works programs which they had originally proposed (and no new labour-market agency or unemployment insurance), while accepting protection/subsidization of the agricultural sector, and continuation of the AK and its relief

works programs side by side with the new public works programs. Whereas the co-existence of the new public works with the old relief works was a policy change for both Sweden and the two parties, agricultural protection and subsidies came to mean a policy change only for the SAP. Since the onset of the crisis, domestically-oriented Swedish agriculture had been receiving protection and subsidies both under the Conservative and Liberal governments.

In the Saltsjobaden agreement, the second pillar of Swedish "historical" compromise, the LO and SAF established the guidelines of a centralized but autonomous industrial relations system and formed a bilateral, permanent agency to conduct their future relations. Before this agreement, the LO, led by unions in the large export industries, initiated a "wage-solidarity" policy which, in fact, corresponded to the wage-restraint demands coming from the SAF and hurt those member unions in the domestic sector. In parallel with the LO-SAF **rapprochement** in the mid-1930s, the Social Democrats, now governing in coalition with the Agrarians, took a number of measures favourable to large, export-oriented companies. They provided tax incentives for these companies, backtracking from the platform of progressive taxation. Following Saltsjobaden, the coalition government established the Labour Market Board (AMS) and abolished the AK with the AMS becoming the sole labour-market agency. As for unemployment insurance, it came with a separate deal in 1934, when the governing Social Democrats received the support of the Liberal Party (not their "cow deal" partner, the Agrarian Party) for a state-subsidized, union-administered scheme with no contribution from the employers.

Compared with Sweden's, the Norwegian and especially Danish "historical" compromises were less comprehensive and less binding. In Norway, the governing Labour and opposition Agrarian parties struck a Swedish-style crisis agreement in 1935. The same year, the Norwegian LO and employers' federation struck a main agreement of their own. It was actually Denmark that initiated the crisis-agreement tradition in Scandinavia. In January 1933, the Social Democratic-Radical Liberal coalition reached the Kanslergade compromise with the opposition Agrarian Liberals. The Danish LO and employers' federation did not need to sign a main agreement during the 1930s, because they had signed one at the turn of the century. Yet it is also true that Denmark was the least innovative among the three Scandinavian countries: in terms of economic innovation, there was only a thin line between Denmark and New Zealand, the most innovative Dominion in the 1930s.

The cross-class and cross-sectoral compromises reached in Scandinavia can be accounted for only partly by the strength of the parties involved. What underlay the crisis agreements between the Social Democratic/Labour and Agrarian parties was, in the first place, the volatile situation of European inter-state relations, which was aggravated with the rise of fascism in neighbouring Germany. The agreements were a defensive response to this situation as well as to the rising protectionist and neomercantilist tendencies in Europe.

In the second place, Scandinavia's corporatist structures were both stimulative and facilitative of these agreements. We must take note of the fact that all three Scandinavian countries had a system of proportional representation (PR) both in

electoral and parliamentary terms. With a high level of electoral support, though not as high as the magic 50-percent barrier, the three Social Democratic/Labour parties came to power only in minority governments under the PR system. Simply because of this, they needed a partner (official or unofficial) to govern. Under majoritarianism, they could easily form majority governments just as their Australian and New Zealand counterparts did so with a similar electoral strength. It is, however, doubtful if they would still strike a crisis agreement with the Agrarians. As for the Agrarian parties, which could face the fate of Canadian "third parties" or UK Liberal Party under majoritarianism, the PR system elevated them to a "power-broker" status.

Corporatism is not, however, just a matter of electoral, parliamentary, and governmental rules. It is at the same time a functional mode of representation and, in the Scandinavian case, a "norm" of inter-class relations. In this regard, the main agreements between the LOs and employers' federations in Sweden and Norway can not be taken as a "tie" situation between two equally strong but opposite classes. As "internal truces", these agreements were part of a small-country response to the world-historical crisis of the 1930s. Compromise requires a common stimulus and willingness as well as strength. In Sweden, the LO and SAF had all three. The Saltsjobaden was a response both to the Social Democratic-Agrarian **rapprochement** (in the form of "cow deal" and, later on, formal coalition) at home and to the democratic-dictatorial confrontation abroad.

The third key factor in Sweden's protofordist experiment was the financial organization of its capitalism. As a late industrializer, Sweden developed a German-

type financial system under which banks supported, and/or became major participants in, industrial investment. The resultant features of Swedish capitalism were unusually high levels of industrial concentration and of fusion between industry and the banks. The LO, not to mention the SAF, owed much of its strength and compactness to these features. The convergence of financial and industrial interests was also facilitative of the macroeconomic activism of both the Liberal and succeeding Social Democratic governments. There was thus no secluded financial community whose interests would be hurt by the monetary experiment of the Liberals and the demand stimulus experiment of the Social Democrats.

Germany, whose financial system had been a historical precedent for Sweden, not only experimented with, but also succeeded in, demand stimulus. It did so under the Nazi dictatorship, not under the Weimar democracy whose last three years corresponded to the first three years of the Great Depression. During these Weimar years, German economic policies evolved from classical orthodoxy under the SPD to protectionism under various conservative parties. The strong labour movement was divided, both in union and party terms, between Social Democrats and Communists. While the SPD, like the UK Labour Party, proved to be more faithful to orthodoxy than its bourgeois counterparts, Social Democratic unions pushed, to no avail, for public works programs in the face of high unemployment. It was only during the dying years of the Weimar Republic that governments (conservative) began planning for public works programs. They had, however, neither strength nor time for implementing these programs.

The Nazis seized power by responding innovatively to the dissatisfaction of domestic groups (most notably labour and the unemployed) with the way Weimar governments responded to the crisis. They did keep their promise of large-scale public works programs to help the unemployed and to stimulate the economy in general. Yet demand stimulus was only a subordinate part of the Nazi neomercantilist design. Once they were settled in power, the Nazis crushed the autonomous organizations of labour and all other groups and established a "corporate estates" order. The sham corporatism of the Nazis and Italian fascists was in fact a skillful scheme to level off the state-society distinction.

Within the constraints of a peripheral economy, the Kemalists in Turkey tried to do the same levelling-off as their Nazi and fascist counterparts managed to do. They traversed a long distance in this direction both by borrowing from countries such as Italy, Germany, and the Soviet Union and by improvising. The result was a fairly "modernized" authoritarian regime whose most distinguishing features were the increased overlapping of the state and party (Republican People's Party, RPP) structures, suppression of the opposition (political, religious, and ethnic), and rejection of any notion of domestic-group organization independent of the state/party authorization. This semi-"totalitarian" regime was installed prior to, and in interaction with, the neomercantilist shift in economic policy.

The installation of such a regime in Republican Turkey was not preceded by a democratic breakdown. The interruption of the two brief periods of limited political opening (1923-5, 1930) does not amount to democratic breakdown. By contrast, the

other Balkan countries saw a semi-democratic breakdown on the road to dictatorship during the 1930s. Bulgaria, Greece, Romania, and Yugoslavia had all pluralist, though not fully democratic, structures before they were under dictatorship. And none of them experienced the level of state-party overlapping Turkey did. That is, compared with Turkey's, the dictatorial regimes instituted in the other Balkan countries were less "totalitarian". Combined with the higher degree of "backwardness", the higher degree of "totalitarianism" gave Turkey's neomercantilist experiment a more **dirigiste** and comprehensive character in the Balkan context.

How did domestic-group demands relate to Turkish neomercantilism? To begin with, labour was simply out of the picture in the absence of a significant level of proletarianization and of union/party organization. Proletarianization was, rather, a consequence of "etatist" industrial(-ization) policy followed during the 1930s. Likewise, subsistence farmers, comprising a large section of the peasantry, did not have any policy impact. In the commercialized sector of agriculture, small farmers producing (mostly grain) for the domestic market were politically inarticulate and had no clout at the policy level. They were one major group to bear the brunt of financing for industrialization through taxing and manipulation of the internal terms of trade -- i.e., primitive accumulation. Those small farmers producing (cash crops) for export markets were able to articulate their policy demands within the state-party structures. Yet their fate was tied more to international price fluctuations than to the political centre.

As for large (cotton-) farmers, they were influential at the political centre and

benefited from linkage opportunities created by the newly-established consumer-goods industries (textiles in particular) under "etatism". Benefiting from industrialization, however, is only a policy consequence and does not necessarily mean a policy cause. And no large-farming group had pushed for industrialization prior to the launching of "etatism". In the urban sector, the mercantile groups controlling the foreign connections of the economy before the crisis lost their privileged position with the autarkic closure of the economy. Some of these groups, namely the native merchants, shifted their operations to the domestic market and assumed entrepreneurial roles. State industrialization drive had its most beneficial linkage effects on the fledgling private industries although they were not enthusiastic about that drive. Prior to the onset of the world economic crisis, these industries wanted and got tariff protection and various other incentives. With the neomercantilist shift in economic policy, they lost some of those incentives while enjoying the benefits of linkage opportunities springing from the state economic sector in general.

The leading "domestic group" was the bureaucracy which occupied a central position in Turkey's peripheral economy. In responding to the world economic crisis, this bureaucracy proved to be innovative in the sense that it advanced to neomercantilism, not stopping long at the protectionist stage. And Turkish neomercantilism was, first and foremost, a bureaucratic project. The economic position of the bureaucracy does not, however, explain its innovativeness. During the 1920s, the same bureaucracy was economically as liberal as any other bureaucracy in the region. The key to Turkish bureaucracy's neomercantilist shift were, first, its political innovation in the form of

installing a semi-"totalitarian" regime, second, the compulsion of German autarkic trade drive in the region and, third, the "appeal" of planned industrialization in the Soviet Union.

The financial system, which formed part of the explanation in other cases we dealt with, was a policy issue in the case of Turkey. In its planned industrialization drive, Turkey established state holding companies combining the functions of entrepreneurship and banking. These companies were very similar to Italian state holding companies established during the 1930s. As for private national banks, the larger ones filled the space left by foreign-owned banks and developed investing interests in the industrial sector.

Economic innovation requires a political and ideological project. Behind every single experiment during the world-historical crisis of the 1930s there was a project. Experiment came with the Democrats in the United States, Social Democrats in Scandinavia, and bureaucrats in many countries including Turkey. At the same time, there were many projects which failed to bring about innovation in economic policy. In the United Kingdom, the Liberals (including Keynes) had been pushing for expansionary financing since the early 1920s and the unions joined them in the early 1930s. Like their UK counterparts, the unions in Weimar Germany pushed unsuccessfully for public works programs. In France, the Popular Front government tried and failed to deliver a "purchasing-power" policy. The Front government gave in to conservatism only nine months after launching the "Blum experiment". The

Conservative government in Canada tried and failed to echo the New Deal of its Democratic counterpart in the United States. The success of some projects, as well as the failure of others, lay for the most part in their "institutional" setting, which I identified with the political regime, financial system, and --in the case of small states-- imperial/metropolitan linkages.

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