**LIBERAL DIFFERENCES:**

**Co-evolutionary patterns of advanced capitalism and political institutions in the UK and the US from the industrial revolution to the 1920s**

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*Abstract:* Remarkably little comparative work has been on the coevolution of the institutions of modern capitalism and of democratic politics in the US and the UK. We suggest in this paper that the differences may be as illuminating as the similarities. In the early nineteenth century, the political institutions of the UK and the US had many points in common. While there was a two-party system in both countries, the parties were undisciplined, the executive (the Cabinet in the UK) was not responsible for legislative initiation, and had limited administrative capacities; and the senior judiciary was relatively autonomous in both countries. By the end of the century, the Westminster system had been created in Britain, with disciplined leadership-based parties, government monopoly over legislation and substantial control over local government, strong administrative capacity, and a non-political judiciary. By contrast, in the US, the Supreme Court had become a powerful political body, decentralised and weakly disciplined parties dominated the Federal and state legislatures, Presidential administrative capacities were only beginning to develop; and a great proportion of administration remained at the semi-autonomous local level (counties, townships, cities). Advanced capitalism also developed differently in the two nations: the giant corporations of Chandler’s managerial capitalism, unimpeded by unions, carried the US economy by the turn of the century past the British economy (overwhelmingly dominant as it had been in the mid C19th). The advanced sectors of British capitalism, especially engineering, remained constrained by craft unionism, incapable of gaining the economies of scale and scope. We argue in this paper that these developments between capitalism and politics were closely interrelated.

*This is a quite preliminary and unfinished draft part of a larger project on capitalism and politics. Comments to* *soskice@duke.edu* *or* *iversen@fas.harvard.edu* *are therefore very welcome.*

In very broad terms, in most of today’s advanced nation states, the political institutions and the framework institutions of advanced capitalism as they operated at least until the collapse of Fordism and the information technology revolution were in place by the 1920s. These institutions were forged for the most part in the different national industrial revolutions of the last part of the nineteenth and early twentieth centuries. How, and with what differences, they co-evolved in the liberal nations is the subject of this paper.

This paper is arranged in five parts: 1: An introduction. 2: An analysis of the particular problems facing liberal nations in the industrial revolution. 3: Britain. 4: The United States. 5: Conclusion.

**1 Introduction (**can be skipped or skimmed).

This part is a rather general discussion of where we are try to go in general. Underlying this paper is a basic model of the relationship between advanced capitalism and democratic politics. The general argument is that national governments independently of partisan position ‘drive’ their national advanced capitalist sectors, seeing them as key to strong long-term economic performance. This we argue is equally true of their foundation in the industrial revolution. It is not a Marxist position: the aggregate political power of advanced capitalism we will argue is weak. Nor is it popular among either economic or business historians: the centrality of politics to the shapes the various national industrial revolutions took is far away from most modern work. Equally, the idea that the particular forms taken by contemporary political institutions developed from the exigencies of the industrial revolution is hardly generally accepted by political scientists. Even more uncommonly we attach a central importance from relatively early on in the national industrial revolutions to the role of long-term political parties in generating the incentives for governments to take a long-term strategic position on the promotion of advanced capitalism.

This paper and another in preparation are historical: They explain the institutional co-evolution of politics and capitalism from the beginnings of the industrial revolution in the nineteenth century, and the different patterns which the co-evolution took in different countries. We will show that the pre-industrial political economic configurations at national and regional level explain the subsequent paths which co-evolution followed in the later C19th and early C20th, and the varied institutional patterns of capitalism and politics which had emerged from this co-evolution after the 1st World War. We will also argue that their pre-industrial political economic configurations explain why some European countries – in the south and in central and eastern Europe – failed to industrialise in this formative first century of industrialisation: the importance of this failure is that, with few exceptions (S Korea,Taiwan, Singapore, Hong Kong, perhaps Israel), subsequent industrialisation did not include powerful advanced – knowledge-bearing and generating – sectors of capitalism.

The paper starts with a broad summary of the argument and then focuses on the co-evolution of politics and capitalism in the liberal nations, primarily Britain and the United States, with shorter discussions of the white settler colonies, Canada, Australia and New Zealand.

In our basic model of the interrelation of politics and capitalism as in various forms it existed since the 1920s, it pays governments to update the infrastructural frameworks which maximise the comparative advantages of the know-how embodied in their advanced capitalist sectors. It pays governments to do so for two ‘long-term’ reasons: politicians and their careers are embodied institutionally in more or less long-lived parties ([Aldrich 2011](#_ENREF_3)) which carry over time the economic interests of voters in the nation state who monitor the economic performance of governments ([Clarke, Sanders et al. 2009](#_ENREF_10)); and the know-how of advanced capitalism in the same state is carried over time via the overlapping generations of skilled employees embodied institutionally in more or less long-lived companies. Thus our model is fundamentally a self-reinforcing model of spatio-temporal continuity of democracy and capitalism in the advanced nation state. It seeks to explain what we see as the extraordinary resilience of the advanced nation state in response to the myriad of shocks and shifts to which it has been and remains subject – world wars, great financial crises and depressions, social changes, and above all technological changes; some of these responses have been smooth, but others have generated conflict, confusion and reconfiguration of political coalitions.

We also argued that the institutional patterns of both advanced capitalism and of (usually) democratic politics have varied across the advanced nations but with stability over time. In particular, coordinated capitalism has been associated with negotiated political systems and liberal capitalism with competitive political systems. We noted too that there have also been relatively stable differences within these broad varieties, as between the centralised British and decentralised American political system, and associated differences in their institutions of capitalism. Other notable differences are between Sweden, Germany and Japan. In our model the stability of these institutional patterns reflects the nature of investments which advanced companies have made given the degree of protection afforded by the political system, and the concern of governments to maintain a political system supportive of the comparative advantages of companies. Thus, for example, negotiated political systems in which business was effectively politically represented enabled businesses to make longer-term deeper investments in co-specific assets, which in turn reinforced political concern to ensure effective representation. (Whether and to what extent these patterns have remained in place in the ‘knowledge’ economies of recent decades – the most profoundly transformative technological shock since the first and second industrial revolutions of nineteenth and early twentieth centuries, ushering in globalisation and a world of multinational corporations – is the subject of on-going research.)

This section asks how the symbiotic relationship came about in the first place. Why did the co-evolution of politics and capitalism lead to the different patterns that it did in the countries which industrialised successfully – very broadly as we have suggested by the 1920s? And why did most nations in East and Central Europe, as well as Russia, and in Southern Europe, and arguably too Ireland, not pass through an industrial revolution in the nineteenth and early twentieth centuries which has with few exceptions thus far been a prerequisite for advanced capitalism?

Our starting point lies in the organisation of pre-industrial political economies. We will argue that two basic configurations, very broadly defined, of pre-industrial political economies were conducive to industrialisation in the nineteenth century. A third (also very broadly defined) basic configuration was not. The two feasible configurations are referred to in shorthand as state-corporatist and liberal. The third configuration we refer to neo-feudal. We will argue that the two feasible configurations each encountered – in quite different ways – conflicts between different social groups in building the capitalist institutions necessary for successful industrialisation. These conflicts then got resolved through the development of political institutions, which in turn permitted further development of capitalist institutions. An important element of these co-evolutionary processes is that they took place at the national level, and that this *nation-based* co-evolution reinforced the national character of both capitalist and political institutions, and of the advanced capitalist companies which were embedded in them.

The broad characteristics of the three pre-industrial configurations are:

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| --- | --- | --- | --- |
|  | **Liberal** | **Proto-Corporatist** | **Neo-Feudal** |
| **Agriculture** | Freely functioning property market; limited communal structure | Restricted property market; strong peasantry medium sized holdings; strong communal structure (*Gemeinde*) | Semi-feudal nobility dominated; or large estates absentee landlords and impoverished peasantry/labourers |
| **Towns** | Weak or absent guilds; individual mobility | Effective guilds; restricted individual mobility; corporatist local government | Typically under noble or landlord control; restricted individual mobility; typically weak guilds |
| **Government** | Arm’s length | *Ständestaat*; corporatist representation; pre-developmental state | Weak national government unless strong royal control |
| **States** | *England, US, White settler colonies, (?)France* | *German states, Scandinavia, Netherlands, Belgium, Lower Austria, Bohemia*  | *Poland, Hungary, Russia, Spain, Greece, Portugal, Ireland, Southern Italy* |

In all the *liberal* configurations by the 1920s (or earlier), there were three common capitalist institutions:

1. Limited and generally ineffective vocational training.
2. Absence of long-run cooperative industrial relations, with weak employer organisations and largely craft-based unionism, (though Fordism will change this).
3. Limited long-term relations between finance and industry.

And three common political institutions:

1. Democratic majoritarian elections.
2. Leadership political parties.
3. Majority control legislature.

Contrasting similarities characterised the *pre-Corporatist* states:

1. Broad-based vocational training.
2. Coordinated centralised unions with strong employer organisations.
3. Strong finance-industry linkages.

Equally for political institutions:

1. Democratic PR elections.
2. Representative political parties.
3. Negotiation-based legislatures.

But every nation within each of the two broad groupings of countries with original liberal and corporatist configurations has differences – sometimes major – with every other in the same group; and we hope the type of analysis developed here may provide a background framework for investigating these differences. In principle we believe that these stem from less visible variations in the pre-industrial configuration. Some sub-cases are of particular importance, and may provide useful tests of our approach. The focus in this paper is on the liberal case: why the different pre-industrial starting points of Britain and the United States – despite their underlying similarities – led to different capitalist and political institutional outcomes by the early twentieth century, including respectively strong and weak party discipline, outcomes which have partially persisted, major differences in industrial relations and the political organisation of the left, and in the organisation of advanced sector companies and the nature of universities. We can use our framework to explain why Canadian institutions – which might have developed along US lines – evolved in ways much more similar to the UK; and this might be taken as a test case of our model of the UK and the US. It might be added that the US economy was hugely successfully in the second industrial revolution in comparison to the other liberal economies; and it would be interesting if our methods shed light on this. Much further afield – but still just in the very broad liberal grouping – the UK-US distinction throws light on the institutional development in the French case; (here, as will be seen subsequently, the analysis of the period to the 1920s explains in part the much later big switch from the relatively weak party discipline of the 3rd Republic to the relatively strong discipline of the 5th). Distinctions are also drawn in the coordinated group, most obviously between the European coordinated nations and Japan, and more subtly within the European group. Finally, there are important differences in the neo-feudal grouping. Patterns of co-evolution in the proto-corporatist nations and failure in the neo-feudal grouping, as well as the differences within each of these groups is the subject of on-going research.

The central idea in our basic model of the relationship between politics and capitalism, summarised shortly, is that advanced capitalism is driven and maintained by national governments who are concerned about the long-term competitiveness and strength of their national economy. Governments are comprised of leading politicians, typically with careers within a political party, whose concern for economic strength largely as we see it derives from the long-term economic concerns of party identifiers – determining whether they vote or abstain or even switch party adherence; hence feeding back into their future careers directly and via the support from lower level party politicians. Moreover economic strength in turn increases the capacity of government in a wide range of areas; from this also leading politicians benefit. Thus we see the framework of advanced capitalism being conditionally promoted within the political framework of relatively long-lived parties with over lapping generations of politicians and activists as well as – critically – potential voters with equally long-term and often loose party identification to whom a well-functioning economy is of great importance. Political promotion of the framework of advanced capitalism is conditional on its being consistent with winning elections.

This broad picture of the central role of national governments and politicians in the promotion of industrialisation is key to the co-evolution arguments of this paper, especially in the second (technology-based) industrial revolution of the late nineteenth and early twentieth centuries. The role of parties as long-term ‘carriers’ of the economic interests of voters develops, in part consciously together with the franchise, in the push for reform and modernisation which governments and leading politicians saw as necessary for industrialisation, and industrialisation as necessary for government capacity. We take therefore a broadly political view of the development both of political institutions and the development (or reconfiguration) of political institutions as building the infrastructures of advanced capitalism.

We do not take one of two common and opposed positions. One is Marxist; politics is not a superstructure to carry out the needs of a capitalist class; that requires a theory of how the capitalist class, itself politically uncoordinated initially, originally constructed such a political superstructure. The other is ‘statist’: notably, Skowronek invokes non-political actors to explain the building of national administrative capacities of the US government between 1877 and 1920 ([Skowronek 1982](#_ENREF_31)) and Howell invokes non-political actors to understand the development of the capacity of British governments’ to structure industrial relations. While we do not argue with Skowronek’s or Howell’s descriptions of the process, (they are highly insightful and useful), we see them as taking place within a political framework.

**2. Liberal similarities and differences.**

In what can be thought of as the ideal-typical form of the liberal pre-configuration, (think loosely of the early nineteenth century), agriculture is organised commercially by owners or tenant farmers, there is a freely functioning property market, there is freedom of individual mobility on and off the land, and farmers are not organised locally politically on a corporatist basis. Owners may be great landowners or small farmers, just as tenants may be large or small.

The organisation of politics locally outside of towns ranged (in the early to mid nineteenth century) from great landowner or at least gentry dominated – as in much of Britain and the white settler colonies before their independence – to a wide variety of forms in the US, from plantation owners in the Southern states to increasingly democratic politics in the Northern and the new states ([Go and Lindert 2010](#_ENREF_18)).

Towns had varying degrees of both self-government and democracy. Common to all, there was by the mid C19th freedom of movement in and out of towns. In the Northern US states townships were relatively democratic and becoming increasingly so, and had substantial autonomy in relation to their state government; the converse was true of the Southern states. British towns were run by conservative self-selecting elites, capable of blocking reform.

The *leitmotif* of this paper is that the primary political problem in liberal nation states as industrialisation proceeded was the creation of a wide range of public goods – notably education, town sanitation, the institutional infrastructure needed for transport and communication systems, efficient commercial legal systems, patent systems, and so on – summarised as ‘reform’. By the middle of the C19th, certainly by the 3rd quarter of the century, most governments (not all) were concerned to promote industrialisation. This reflected the need to finance a growing range of activities, including defence, interest on the national debt, empires, as well as responding to the development of political parties and the longer-term interests of voters.

Reform was the primary political problem because there was widespread opposition both to it and to industrialisation: by conservatives, large landowners everywhere, plantation owners in the Southern US, the reactionary restored nobility and the *ultramontane* church in France, but also small shopkeepers and many artisans. Most basically landowners opposed reform since it took labour off their land, it raised the cost of their labor and they had to pay for its education; from a longer perspective, it implied declining political power. It was a liberal problem rather than one in the proto-corporatist nations: apart from East-Elbian Prussia, a large politically-powerful landowning class was much less evident in the proto-corporatist countries with their city state origins, or origins in Scandinavian alliances between monarchy and peasantry; these countries had the political means to produce public goods in the guild organisations of towns and communal institutions of the peasantry as well as and reinforced by the developmental bureaucracies and courts of the *Ständestaaten* states.

Thus in the liberal nations there was what might be described as an inter-elite conflict, between reformers/industrialists and (primarily) landowners. This was true of Britain and the US, and also of Canada, Australia and NZ (whose constitutional statuses changed in consequence through the C19th); it was also true of France, although the latter had a more powerful bureaucracy. The primary focus will be on Britain, the US and Canada; we will draw sketches of France and Australasia.

Our first core hypothesis about the liberal nations is that the wide extension of the franchise at both national and local (and sometimes regional) level was key to reform. Thus in the liberal nations the extension of the franchise results from an inter-elite conflict (except in the northern US states where it was largely in place). Democratisation in the liberal nations follows a different logic here from that of Acemoglu and Robinson ([2005](#_ENREF_1)) where the conflict is between lower and higher classes over redistribution. In our argument the conflict is over reform. Indeed the franchise was acceptable to reforming governments and industrialists *because*  redistribution (at least to the great masses of the poor) was not a consequence of the franchise: This was because working-class formation in the liberal nations was fragmented thus enabling reforming governments to choose a majoritarian electoral system without the challenge of a unified working class (as in the corporatist nations). Skilled workers organised by craft unions, and with no interest in redistribution to the poor, thus joined the broad middle group of decisive voters. We discuss this interrelated argument at length in a recent paper ([Iversen and Soskice 2010](#_ENREF_22)).

**H1** In the liberal nations the franchise played a key role in bringing about reform, and can very broadly be seen as an inter-elite conflict between reformers and landowners. By choosing (or maintaining) a majoritarian electoral system the franchise was ‘safe’ in so far as electoral power lay in the middle group of the electorate and not with the poor.

But important differences developed between the British and American political systems through the C19th. Early on both systems shared key characteristics: As with the American system, the British had weak party discipline and the executive was separated from the legislature in the first third of the C19th; Cox ([1987: 4](#_ENREF_11)) shows party indiscipline in the 1850s in the Commons paralleled that in Congress. And the same was true in both Upper and Lower Canada in the Assemblies in the 1830s. Why did the British and Canadian political systems become disciplined and centralised while the US system did not?

Our second core hypothesis is that the *geographical* distribution of landowners determined whether franchise extension was part of a strategy of political centralisation, including disciplined parties and national-level (or regional-level) decision-making and fusion of executive with legislature; or on the other hand, of a strategy of political decentralisation, weak party discipline, separation of executive and legislature and wider political powers at local-level. Our hypothesis is that where landowners were widely distributed geographically, then political centralisation (however difficult – since it direct required engagement with the landowning class by reforming governments) was followed. This was the British case, where it was difficult to imagine major reform without domination by the government of parliament and by parliament over local government. Thus, whether or not centralisation by a reforming government was feasible, it was seen as necessary to reform. (The complexities of the defeat of the conservative forces in the UK will be set out below.)

It was also the Canadian case where the Tory Family Compact network of large landowning families controlled much of Upper Canada and the Chateau clique much of French-speaking Lower Canada: to carry through major reform needed control by a disciplined reform-oriented party in the main provincial governments. (It was the case too in the Australian colonies – the Squatocracy – and in New Zealand.) In these three cases, centralisation was imposed by reforming British governments.

But the US case was quite different: In the US the plantation owners were confined to the South. Thus, we argue, the reformists (very loosely, the northern Republican party from Civil War until WWI) could accept a decentralised Federal system, within the framework of which the Northern and Mid-Western states could individually push through reformist legislation[[1]](#footnote-1), and correspondingly in which industrialisation was largely located in those regions. Thus the South could continue to oppose industrialisation, also supporting a decentralised Federal system, though needing a centralised Southern ‘governance’ and explaining the persistence of strong southern states (by contrast to weak northern states) to underwrite the strategy:

It would appear that southern opposition to northern industrial and commercial policies provided the impetus for both the region's opposition to a strong American state in the Union and support for a centralized Confederate regime after secession. Southern support for a strong Confederate and a weak American state (before and after the Civil War) can thus be viewed as a consistent strategy intended to minimize the anticipated deleterious impact of the northern industrial program for the national political economy on the plantation South. ([Bensel 1987: 69](#_ENREF_4))

Nor did the reformers seek to move away in the Northern and Mid-Western states from the tradition of strong local government – originally in the townships of the North Eastern states. This was because the franchise at local as well as state level acted as a guarantor of local public goods especially education ([Engerman and Sokoloff 2005](#_ENREF_15); [Go and Lindert 2010](#_ENREF_18)) and in the new states against landowner dominance. This complemented weak party discipline at both northern state and federal level since the power bases of politicians was local.

France is a more complicated case because of the centralised state apparatus. If we ignore that temporarily, and equate conservative reaction with the landowning *noblesse de l’épée*, then the push in the 3rd Republic for democratisation can best be seen as an inter-elite conflict (between the lower middle-class republican movement with some support from the industrialising wing of the *haute bourgeoisie* and a deeply conservative landowning aristocracy tightly linked to the *ultramontane* catholic church anti-democratic and anti-industrialisation); and the concerns of both republicans (the opportunists) and industrialists were broadly reformist in nature[[2]](#footnote-2).

France also broadly fits H2: While not as clearly as in the US, the reactionary landowners (certainly the most conservative of them) were geographically concentrated in the West and in the South. The political solution of 1878 after the failed coup of President MacMahon in 1877 was a constitutionally enfeebled Presidency and an Assembly with majoritarian elections and a run-off system; and a conservative senate elected by mayors and representatives. This gave a strong incentive to politicians to cultivate close constituency ties and to represent local interests. Thus party discipline in the Assembly and Senate was weak. With sufficient majorities framework reform was possible, as most notably on free and secular primary education. But communes and cities with elected (powerful) mayors were responsible for substantial areas of policy together with prefects. When mayors and prefects had similar interests reform was possible at local level, and in practice easy for large companies[[3]](#footnote-3). But the reactionary landowners, so long as they could retain control of their local governments, remained sheltered from *Jacobin* tendencies from Paris; and their political opposition remained muted.

Thus the second hypothesis is:

**H2** Where landowners are powerful and widely distributed geographically, reformers have adopted a centralisation strategy along with the franchise; where the distribution of landowners is regionally focussed the reform strategy has been to decentralise political institutions along with the franchise.

The second great conflict in industrialisation is between capitalism (and the bourgeoisie) and the working class. But in the liberal nations that conflict never took the political form of organised union protests at a national level in order to gain democracy that it did in the corporatist. This was because the working class in the liberal nations was deeply fractured and incapable of taking sustained unified action: it neither had common goals nor the capacity to coordinate politically (or industrially). As Katznelson argues in his fine introductory chapter to *Working-Class Formation*  ([Katznelson and Zolberg 1986](#_ENREF_23)) comparing France, the US and the UK against Germany, the working class was divided primarily by skills, more explicitly by craft unions who wanted to limit the supply of skills and reinforce their relative earnings. This was in contrast to German or Swedish industrial unions who sought to unify the work force and to spread skills across it and whose goals were politically embodied by a social democratic party which stood for a unified working class. As we will suggest in on-going research, the institutional preconditions for a unified (with perhaps religious divisions) and ultimately skilled working class are that companies are pursuing development and production strategies requiring a relative skilled manual workforce; behind this is the institutional requirement that companies had the coordinating capacity as employers (once it was no longer possible for companies to run a cooperative workforce without union cooperation) to force unions to centralise and for these unions impose cooperation on a skilled workforce; and behind that lay *Ständestaaten* governments protective of companies and helping them with access to technology. And, as Thelen has argued ([Thelen 2004](#_ENREF_33)), the incentives for unions to become industrial as opposed to craft is greatly reinforced by an elastic supply of skilled labour from a guild system. But these preconditions did not exist in the liberal nations.

In terms of effective unionisation on the shop floor in relatively fluid labor markets, unionisation of unskilled workers – without firm-specific skills – was extraordinarily difficult since they could easily be replaced. But craft unions could flourish if the company could not replace existing unionised craft workers with non-unionised craft workers, and if the company continued to need the relevant craft skills. Thus craft unions were successful towards the end of the nineteenth century in the UK and the US, and in all the white settler colonies, where they were both able to organise their craft nationally and to control the supply of craft workers by controlling the training system. Since effective guild systems (formal or informal) did not exist in the liberal nations the supply of skills was inelastic. Hence the supply of craft workers was relatively limited, so that they could be relatively easily organised where the skills remained necessary to companies.

**H3** Effective unionization in the liberal nations, if it existed prior to Fordism, took the form of craft unions.

Unionisation was significantly more effective in the UK, Australia and New Zealand, and to a lesser extent Canada, by contrast to the US (before the CIO period of the late 1930s on) and to France. This was notably the case as far as large industrial companies were concerned. Furthermore, a similar distinction relates to the involvement of the unions in national politics: in the UK, Australia and New Zealand, unions played a key role in building up Labor parties before WW1; and this was partially true of Canada (in Ontario both Conservative and Liberal engagement. And, although the picture is greatly confused in the pre WW1 period of the 3rd Republic, the syndicalist movement (embodied in the CGT) believed in the general strike as a means of effecting political change and the individual craft unions played little part in politics. We hypothesise tentatively that these distinctions can be explained by the degree of political centralisation. Where politics was centralised (along increasingly democratic majoritarian lines), skilled workers were a key part of the electorate which had to be wooed; and party leaders had the control over their party to make this legislative appeal. Hence it was both the case that the use of violence by employers was politically frowned on; that the frown was enforceable because of central control over local government; and that there was an incentive for organised labour to devote resources to the political system. In decentralised political systems, by contrast, local areas had more political power (including in the US control over police) and hence had the incentive to operate, in a Weingast manner, to attract large companies in competition with each other[[4]](#footnote-4).

**H4** Centralised political systems were more friendly to unionisation, and more open to union influence and engagement, than decentralised systems.

In addition to the ways in the political system was partially structured to respond in the liberal nations up to the 1920s to the need for reform, and in which it in turn allowed different solutions to the integration of the working class, the political system played a significant role in structuring other important capitalist institutions by this period. These include:

(i) the relationship between business and the political system;

(ii) the higher education and technical education systems, as well as technology transfer;

(iii) competition law and patent law.

In what follows we will discuss first the UK, then the US, and finally a comparison between the UK and US, using Canada as a comparison case.

In so doing we want to use our analysis of the co-evolution of political and capitalist institutions to answer a fundamental puzzle about differential economic outcomes: in1870, the UK and the US had comparable populations (31.3 against 39.3 millions); the UK produced 32% of the world’s industrial production, while the US produced 23%; GDP per capita was $972 in the UK and $764 in the US ([Chandler 1990: 4, 52](#_ENREF_8)). In 1913, population was 45.6 (UK) and 97.2 (US), share of world industrial production 14% (UK) and 36% (US), and GDP per capita $1,491 (UK) and $1,813 (US). Chandler in *Scale and Scope* explains the extraordinary comparative performance of the US economy over this period by the managerial capitalism of the huge integrated multidivisional enterprises created across the economy but above all in the sectors of the second industrial revolution – chemicals, electrical engineering, leading in turn to major changes in a range of processing industries. By contrast the family-based capitalism of large English companies was unsuccessful in developing similarly great economies of scale and scope[[5]](#footnote-5). Standard explanations of the differences in UK and US developments are typically culture-based (classical education bias of the English elite, and the class basis of English society and aspirations); in so far as Chandler explains the differences as opposed to setting them out it is along these lines. But we believe that they result to a significant extent from the differences in political institutions and the operation of industrial relations outlined in our hypotheses above – factors almost wholly absent from Chandler.

**3. Britain.**

In Fig 1.2.1, 1.2.2 and 1.2.3 we sketch out our argument as to how the institutions of capitalism and politics in Britain co-evolved from the middle of the C19th to the 1920s.

**Figure 1.2.1: Britain C19th**



Fig 1.2.1 shows why capitalism and the industrial relations system took the forms they did in Britain in the later C19th as the (not fully intended) result of the development of a political system capable of bringing about reform in a wide range of areas from education and sanitation to the administration, transport and the army. The starting point of the argument here lies in the initial conditions of the organisation of the pre-industrial political economy. The countryside was largely landowner dominated and many of the towns were run by self-perpetuating oligarchies. These conservative blocks opposed reform, since they did not see themselves as benefitting from it while having to pay its cost; and within the pre-existing relatively decentralised political system, in which their blocking power was spread through much of the country locally and in both houses of parliament, they acted as a powerful force against reform. Had these conservative forces been confined to a particular part of the UK (to Scotland or Ireland, say), as in the US they were confined to the Southern states, we might have imagined Parliament with an English majority giving substantial autonomy to local government, and English cities operating individually and competitively to generate the public goods required for industrialisation[[6]](#footnote-6). But they were not. Hence the main strategy of reformers lay in centralising power within parliament across Britain (Ireland could be neglected), both by increasing the power of the executive nationally – fusing the executive with the legislature – and national control over local government. (This perspective is consistent with the separate treatment of Ireland, not seen as a candidate for industrialisation.) The franchise, the honing of a majoritarian electoral system and the development of the Liberals and Conservatives into two coherent, competitive and disciplined parties during the last third of the C19th were part and parcel of this process. In particular from the 2nd Reform Act of 1867, this led to a great raft of national reforms, including education (Forster Act), companies, trade unions, the universities, the church, law and order, the army and navy, and the civil service …… with care taken to enforce them at local government level and thus major reforms in local government itself. [details of reform legislation, esp local govt, unions, Australian ballot]

There is little doubt about the success of reform in later Victorian Britain. It was the ‘age of reform’. In our view, centralisation of the political system in a majoritarian democracy was the core institutional driver. Given the constraints of the anti-reform interests in the Lords and the oligarchic municipal corporations, as well as the undisciplined nature of parties in the Commons, it is difficult to see how the institutional framework of a modern industrial economy could have been erected without the prior development of such a political system. How this new system emerged will be seen shortly. (We do not want to play down the role of the state; we draw shortly for example on Howell’s fine *Trade Unions and the State: The Construction of Industrial Relations Institutions in Britain, 1890-2000* ([Howell 2005](#_ENREF_21)). But we see the administrative state in late Victorian and Edwardian Britain as primarily endogenous to the development of this democratic political system centred on Downing St; and the fundamental dynamic of politics as arising from the competition between party leaders for the middle part of a newly enfranchised electorate embodied in two major parties. To repeat one of the two major elements of our understanding of capitalism and politics, parties – as long-run overlapping generation institutions of politicians and voters – both provide career incentives for politicians and act as carriers of the long-run economic interests of the electorate.)

But this same process of centralisation of executive power in a competitive majoritarian polity structured important parts of the developing institutional framework of British capitalism in disadvantageous ways with respect to the American, especially from the perspective of international competitiveness. The fundamental British and American frameworks are, of course, similar – lack of business coordination, weak business-financial links, uncoordinated craft-based industrial relations, and general rather than vocational education. In both cases, as noted earlier these similarities stemmed from the absence of an effective guild tradition, of an associational *Ständestaat* basis of representing interests politically, and of a *Gemeinde* pattern of collective rural organisation based on an autonomous peasantry – the cluster of characteristics very broadly preconfiguring more corporatist economies. The *differences* between British and American capitalism related to the strength of the British system of industrial relations, the ‘personal capitalism’ of large British companies by contrast to American ‘managerial capitalism’, and the weak British competition rules governing the relations between companies ([Chandler 1990](#_ENREF_8)). There is of course a huge literature on these differences, largely in social, labour and business history, and much of it based on differences in American and British culture. By contrast, we take a political science perspective and see the difference as lying in centralisation of the democratic system[[7]](#footnote-7). Australia, New Zealand and Canada are more similar to Britain in both capitalist and political systems in these respects; and we will use these cases below as confirmatory of our argument.

While there are clearly additional factors, we believe that this goes an important way to explaining the relative failure of British industry between 1870 and 1926-9 when its share of world industrial production fell from 32% to 9% in comparison to the extraordinary success of US industry – with the huge economies of scale and scope of its giant companies – in rising from 23% to 42% over the same period. Nor were Australia, New Zealand or Canada competitive with the US. So we also need to ask why the British government allowed these policy developments to take place, given our underlying theory.

Our basic argument is sketched out in Figure 1.2.1. The first element has already been explained: the diffuse spread of conservative anti-reform forces across the country meant that reform required a centralised and democratic political response. This response was facilitated and reinforced by its majoritarian form. How this came about is set out below.

There were two main implications of this political structure. One came from its *majoritarian* nature – governments had to focus on the middle part of the electorate. It seems likely that the majoritarian push by both party leaders in the late C19th towards an SMD system of constituencies (away from a system with 2 or 3 or more member districts) reflected the desire for increased party discipline ([Cox 1987](#_ENREF_11); [McLean 2001](#_ENREF_26)). An important effect was to bring the ‘respectable working man’ (Disraeli) into the middle part of the electorate after 1867 and even more 1884. One aspect of this was beneficial to reforming centrist governments: the respectable working man was as opposed to redistribution to the poor (the ‘great residuum’, the ‘hungry masses’) as the reforming government; hence the franchise was not dangerous. But skilled workers were now among the median voters.

The other implication derived from *centralisation*. Centralisation meant both that Westminster could legislate for the country as a whole; and that it could impose itself on hitherto anti-reform local government – with reform in turn aided by local democracy.

The second element was industrial: unionisation took the primary form of craft unions, where members had completed apprenticeships and where the union could control the supply of labour. Subsequently in the 1890s unions of more or less skilled operatives formed (miners, railwaymen, gasworkers, firemen, dockers), often services where stoppages were highly disruptive. There were several reasons why these unions developed in Britain, as in the other liberal nations. Craft unions could flourish in the absence of an elastic supply of skills from guilds ([Thelen 2004](#_ENREF_33); [Thelen 2009](#_ENREF_34)) or from communal rural organisation, at least so long as employers needed the craft skills. In corporatist countries where employers wanted to organise whole workforces on a more skilled basis, they initially precluded unions, and then much later accepted unions centralised on an industry basis and able to control members in individual plants. They were able to prevent unionisation at least in part with protection from the political system. In the US where large companies partially dispensed with skilled labour as we will see, the scope of craft unionism (the AFL) was relatively restricted. This they were able to do in part because they could by-pass pro-union politics or bring in aid the political system on their side.

In Britain (and Australia, New Zealand and Canada) parties were protective of skilled workers. They formed as we have seen part of the broad middle of the spectrum of voters for whom the parties competed. And because of political centralisation, governments were increasingly capable of providing elements of protection. The completely decentralised and often inexistent policing of the early C19th was brought under Home Office inspection by 1859. Thus governments in Westminster exercised significant constraints on how local government (watch committees) used the new police forces. In so far as the forces of order were used industrial situations it seems to have been largely in the more violent strikes involving less or un-skilled workers. In addition the Board of Trade played a major role in developing conciliation and arbitration procedures in the later C19th to end or prevent strikes ([Howell 2005](#_ENREF_21)). By contrast to the US, where large companies could threaten to move away from cities or counties which constrained their activities, such threats were less credible in Britain where local governments had much less freedom and could not opt out of many centralised policies. Moreover in the major industrial cities, local democracy made skilled workers median voters. Hence, even though industry played an important role in running cities, notably Birmingham and Manchester, city administrations were notably cautious in industrial relations with skilled workers.

The second Anglo-American difference concerns the organisation of large companies – the core institutions of modern capitalism of the second technologically-driven industrial revolution. Chandler describes the organisation of large British companies in the period of the late C19th and first half of the C20th as one of ‘personal’ capitalism ([Chandler 1990: 235 - 392](#_ENREF_8)). “British entrepreneurs failed to make the essential three-pronged investment in manufacturing, marketing and management in a number of the capital intensive industries of the second industrial revolution. ... the pioneers recruited small managerial teams, and the founders and their families continued to dominate the management of the enterprises.” Apart from a small number of enterprises with extensive managerial hierarchies, large British companies in sharp contrast to large American and German companies were either run by individuals or families with few salaried managers, or “... they were federations of such firms. These federations were holding companies. Each legally controlled its small, personally managed operating subsidiaries but did not have a large central office for coordinating, monitoring or resource allocation” ([Chandler 1990: 235](#_ENREF_8)). This was particularly true of the industries “most central to continued economic growth and industrial competitiveness ... in metals (both ferrous and non-ferrous), in a wide range of light and heavy machinery, and in ... chemicals” ([1990: 242](#_ENREF_8)). These British structures seem to have been condoned in the inter-war period when serious discussion within government circles began ([Daunton 2007: 115-120](#_ENREF_13)).

This went with the third main difference, that in competition policy. It is not wholly mythical to say that restraint of trade is a fundamental doctrine of the common law (actually Sir Edward Coke, the famous parliamentarian C17th lawyer, played an important part in building its prominence ‘from time immemorial’ as he incorrectly claimed). But it did not prohibit restraint of trade – it merely made contracts which relied on restraint of trade non-binding; it was neither tortious nor could it be used by a government to enforce competition. This was the case in both the UK and the US in the late C19th. The large holding companies in both the UK and the US were initially collections of sometimes large numbers of small autonomous companies held together to make price and share of market agreements – cartels by another name. The Sherman and Clayton legislation in the US made this form of holding company de facto illegal – playing an important role in boosting American managerial capitalism (below). But there was no serious competition legislation in the UK until 1949. Indeed the UK went over to imperial preference tariffs after WW1, further sheltering UK manufacturing.

How are these differences to be explained? The most straightforward explanation is along these lines: Had UK companies wished to develop along managerial capitalist lines, a precondition would have been to eliminate the power of craft unions to constrain managerial prerogatives on the shop floor. Engineering employers (the main industry involved) were well aware of this: As Col Dyer, the President of the Engineering Employers’ Federation, put it in the late 1890s, ‘The federated engineering employers are determined to obtain the freedom to manage their own affairs which has proved so beneficial to the American manufacturers’ ([Adelman 1996: 24](#_ENREF_2)). The counter-attack of employers against the unions in the 1890s was precisely against the aristocracy of labour in the employers’ ‘belief that attempts to increase British industrial efficiency by the introduction of new machinery and new methods, particularly in the engineering industry, were being deliberately held up by the restrictive practices of the ASE and other craft unions’ ([1996: 24](#_ENREF_2)). That would have required substantial social conflict with that class of workers for whose electoral allegiance the two major parties were competing in the last quarter of the C19th and the early C20th. Both Campbell-Bannerman, Liberal Prime Minister from 1905 to 1908, and Balfour the then Conservative leader of the opposition supported the strongly pro-union Trade Disputes Act of 1906[[8]](#footnote-8). Even after WW1, when the Labour Party had already become the second party, there was and remained significant skilled worker support for the Conservatives, (Robert McKenzie’s *Angels in Marble*). As international competition increased from the late C19th on especially in engineering, metals and chemicals, so the relatively small family concerns saw industry-wide holding companies as the means to maintain prices and profitability; these holding companies were ‘run’ by directors (of whom there might be very many) in effect the representatives of the individual companies in the holding bargaining out prices and market shares, with arrangements which subsidised the least and penalised the most efficient members. In this way, an inefficient system of industrial relations could be maintained in which the incentive to innovate was small – because craft unions would oppose changes in work practices, would hold-up those companies which did make profits out of innovation, were unprepared to expand workforce skills for fear of weakening their bargaining situation, and because companies could not take advantage of the economies of scale and scope which might come from new technology and/or new products. Daunton nicely refers to the overall setup as a ‘low effort bargain’([2007: 88-96](#_ENREF_13)), where “... Change became very difficult, and many employers were content to maintain a system which minimized managerial tasks. .... the state’s [supportive] attitude to trade unions made the task of employers much more difficult; and the structure of the market made high throughput production systems less appealing” ([2007: 93](#_ENREF_13)).

Thus we believe a political system, centralised, democratic and majoritarian, and with strong control over local government, and where skilled workers were a key part of the middle of the electorate, generated a protective attitude by government towards collective bargaining and the unions, especially those of the more skilled. An implication of that was that competition policy (and) had to be sufficiently weak for business to maintain profit margins despite the costs of direct and indirect costs of labour imposed by the industrial relations systems; this was reinforced subsequently by tariff policy in the form of Imperial preference from 1932 – designed to keep out both American and German goods from British markets, as well as those of Canada, Australia and New Zealand.

This appears to contradict our underlying model that governments choose infrastructural frameworks to maintain the dynamic comparative advantages of their country’s advanced capitalist sectors. Already by the 1950s and in full flood by the late 1960s, both Labour and Conservative governments understood the great problems posed by the industrial relations system and the underlying inefficiency of British industry ([Fioretos 2011](#_ENREF_16)). Why was this system accepted for so long? Our basic model is qualified in two ways: most important, governments give priority to median voters over dynamic comparative advantage. That is integral to the centrality of political parties as fundamental drivers in our model. Secondly, the British government was not seriously at risk economically because of the British Empire: this provided both revenues and also protected markets. So our argument is that reform required centralised political structures – and they were indeed highly successful in bringing about reform in most of the key areas in which reform was needed. But by making skilled workers into decisive voters governments were forced into protecting an industrial relations systems which militated against an economy along the hugely successful example of the US. Had Britain’s economic future depended on mastery of the economic sectors of the second industrial revolution, then governments would have been confronted with a deep problem. But it did not because of the economic resources which the Empire still brought until the 2nd World War. Once the scale of the disaster (both from the loss of Empire and the lack of economic competitiveness) became clear after the war, both parties engaged in debates about change.

We now go back to asking how political reform was brought about, and how the political system which emerged around the early C20th and which still survives – centralised, democratic and majoritarian with two major disciplined ‘leadership’ parties, and strong control over local government – was brought about.

**Figure 1.2.2: Britain** *Political Institutions* **C19th**



The creation of this system was hardly self-evident. We have already explained the need of the system from the perspective of the reformers, including the industrialists. But, precisely because it could bring about reform, and because political opposition to reform was the block to reform in the first place, we might wonder why that political opposition (landowners etc) was not able to block the political change needed to defeat it.

A starting point is the limited power of the government in the first half of the C19th. The House of Lords was landowner-dominated – even if leading politicians who were also reformers came from an aristocratic background[[9]](#footnote-9) – and it was generally opposed to reform. In principle Parliament could legislate on local government issues; but in practice local government was dominated by self-electing oligarchies. Party discipline in Parliament was weak; Cox ([1987: 4](#_ENREF_11)) quotes Lowell’s pioneering research showing that intra-party cohesion in the Commons in the 1850s was comparable to that in American legislatures ([Lowell 1902](#_ENREF_24)). There were several hundred private members’ bills each year; and a significant amount of legislation was introduced by private members. Many members of the Commons were sons of members of the Lords. In turn this was because the franchise was quite limited, so that great landowners controlled seats; many members were elected by tiny electorates from rotten boroughs while great new industrial cities were without representation. Along with the conservatism of political institutions, the army, the civil service, the law, the universities and the Anglican church were bastions of reaction and privilege; (much of this extended through the Empire, with the colonies in Australia, in Canada and New Zealand governed by British administrators de facto reliant on conservative landowners who had emigrated from Britain, often younger sons of British aristocracy). The Tories (if hardly a coherent party) “had the support of the church, the universities, the services, the unreformed municipal corporations in the towns, most of the great landed families, and nearly all the country gentry. These supporters were likely .. to oppose reforms which threatened their monopoly of place and power” ([Woodward 1961: 52](#_ENREF_36)). Government was carried on by the cabinet which had had imposing executive powers, including patronage, since the late C17th ([Cox: 5](#_ENREF_11)); the patronage enabled a government to construct majorities behind necessary supply bills; but it implied that public jobs everywhere were filled by those without qualification and frequently intelligence. The ability of the government to push through reform legislation was thus quite limited – especially since reform in many cases involved ending the patronage which the government relied on to push through legislation!

As to the extent of change, there is no doubt of it if the Commons is taken as central case:

At the beginning of the nineteenth century, the house of commons still retained its traditional character as the ' grand inquest of the nation', concerned pre-eminently with voicing grievances and scrutinizing the financial and administrative measures of the Crown: private members enjoying the same privileges as ministers, and the same power of initiative save in the special case of taxation. By the end of the century the Commons had become primarily an instrument of legislation, controlled by ministers in the interests of a dominant majority: and the rights and powers of private members had been reduced to insignificance. ([Fraser 1960](#_ENREF_17)).

To these changes we can add a great raft of reforms as noted earlier, both administrative, covering the professions, as well as primary education and urban sanitation and planning. The power of the Lords was weakened, a disciplined competitive two party system developed with leadership-based parties, as well as a wide extension of the franchise (1832, 1867 and 1884) and a non-corrupt electoral system. Lowell showed that by the 1890s party discipline in the Commons was at the high levels of the mid C20th ([Lowell 1902](#_ENREF_24)).

To underline the British American comparison, one could say: In the early C19th, the Cabinet and Prime Minister controlled the (then limited) executive but not the legislature, thus (with a stretch) analogous to the split of Presidential executive and Congressional legislature in the US; and party discipline in the legislature was weak. In addition in the early C19th, the Cabinet had very limited control over local government; and this was similar to the President. In England, municipal local government was largely run by unelected and in practice conservative oligarchies. By the late C19th, the Cabinet and Prime Minister controlled both executive and legislature, and party discipline was strong. Moreover, the power of local government was determined by Parliament, and was relatively limited. How did this reform come about, and how did it so extensively change political structures?

There is no agreed answer to this question; and in particular the interests of the individual actors in Disraeli’s 1867 Reform Act, including notably Disraeli himself, are still disputed. But in our view the key arguments are as follows:

(1) As we have noted as key to the comparison between Britain and the US, the only legal route to the reforms needed for industrialisation in Britain was through centralization of political power in Parliament: there was no area of Britain in which either landowners or the country gentry or oligarchic municipal corporations did not control local politics, and only Parliament could change that situation. Counterfactually, had the industrialised north of England been politically autonomous and reform-minded, Britain could have remained a decentralised polity (at least as far as the framework institutions of industrialisation were concerned).

(2) Two fundamental conflicts of interest were involved. The first was between agriculture/landowners and industry: landowners would have to pay for education, perhaps for urban renewal and sanitation, and (in Britain) for repeal of the Corn Laws and free trade, while losing their workforce – and paying more for it. Hence landowners had a class interest against pro-industry reform. The second was that landowners, gentry, municipal corporations, etc. gained specific individual benefits from lack of reform, notably as MPs (placemen), through patronage, etc., even though they would gain collectively from a more efficient economy with improved public services, more effective defence, control of the empire, and better law and order protection against the problems increasingly caused by industrialisation.

(3) The perceived need for reform by leading politicians (including more perceptive landowners, Whig and Tory) grew rapidly through the first half of the C19th, as the impact on most aspects of life of uncontrolled industrialisation accelerated. At the same time, the need by the government for financial resources, itself dependent on effective industrialisation, was increasing as a result of both empire and the growing power of continental nations, notably Prussia and Russia. And as the C19th progressed, so the economic development of the US and Germany and the relative decline of British industrial dominance, reinforced the arguments for reform, especially in education.

Through the earlier period, moreover, the amount of business with which the Cabinet as executive had to deal raised its importance and gradually elevated Cabinet membership (and membership of the government more generally) into positions of power. In turn leading politicians had an incentive to further elevate their power by reducing that of the Commons and Lords to block their actions. In Grey’s Whig administration 1830-4, the Cabinet largely consisted of great landowners, aware of the above arguments. In 1832 they legislated the First (‘Great’) Reform Act – redistributing seats away from constituencies with low electorates and permitting serious representation by the industrial towns; it was accepted by the Tory House of Lords only after the crown had agreed to Grey’s demand to create enough additional peers to pass the legislation (before the peers were created); the Tory party was moreover split as a result of Peel – taking a longer-term perspective – favouring reform. The Act did not change the formal power of the Lords, and the property qualifications for voting remained high; but the much wider representation of the reformed Commons, and the inability of landowners to control rotten boroughs, weakened the readiness of the Lords to oppose reform legislation from the Commons, especially if promoted by the government with a clear majority, as well as increasing the majority pro reform in the Commons. A consequence of this was that the Cabinet after the 1832 Reform Act from now on started to acquire a near-monopoly of legislative initiative ([Cox 1987: 5](#_ENREF_11))[[10]](#footnote-10). A direct result was the Municipal Reform Act of 1835, democratising local government in towns to a limited extent. Cox quotes Bagehot’s statement in 1865 that ‘the nearly complete fusion of the executive and legislative powers’ in the Cabinet was ‘the efficient secret’ of British government ([Cox: 5](#_ENREF_11)). Two further Reform Acts extending the franchise in major ways took place in 1867 (extension mainly to urban areas) and 1884 (to rural areas). These led to further de facto weakening of the Lords, and in consequence a range of important reform legislation on primary education, local government, and sanitation. Electoral rules, including the widespread adoption of single member districts, further enhanced party discipline.

(4) Why exactly did party discipline in both the Commons and the electorate increase in the second half of the C19th? Cox in his seminal *Efficient Secret* ([1987](#_ENREF_11)) takes the centralization of legislative authority in the Cabinet and the extension of the suffrage as his two broad independent variables. He shows that voters voted for parties rather than individual candidates once it became clear that the party which won a majority in the Commons controlled the Cabinet and in turn the legislative programme of government. And this development occurred once the electorate had reached a size sufficient to eliminate bribery and personal connections as feasible ways of winning seats; this was reinforced by legislation against electoral corruption (1874?); and by SMD seats – forcing candidates to focus on the median voter rather than particular groups in a particular constituency[[11]](#footnote-11). In turn candidates and MPs had to adhere to party discipline or face sanctions both from voters and from party leaders. This therefore became a high-discipline equilibrium. A further aspect to that discipline by voters relates to long-term party attachment: A detailed micro panel analysis of Victorian voters post 1832 shows a very high degree of party loyalty ([Phillips and Wetherell 1995: 424](#_ENREF_28)).

As shown in Fig 1.2.2 there was positive feedback. [More to be written here.]

**Figure 1.2.3: Britain** *Capitalist Institutions* **C19th- early C20th**



**4. The United States**

In many respects the institutions of capitalism developed in similar ways over the last century and a half in Britain and the US. Both the UK and the US are treated as close to the ideal type of Liberal Market Economy in the varieties of capitalism literature: they share weakly coordinated unions, general rather than vocational education, and limited connections between banks and companies; in the recent decades of a generic information technology, the welfare state has been relatively low, income distribution is unequal, labor markets are competitive, and there is unilateral control by top managers with high-powered incentives in companies. In both countries political systems are competitive in Lijphart’s classification, parties are leadership-driven in national elections, and this is reinforced by majoritarian voting. In all these respects they both differ profoundly from Coordinated Market Economies.

In this section we are interested in how these broad similarities of institutions of both capitalism and politics co-evolved through the respective industrial revolutions of the countries. But we are also interested in understanding what we have identified earlier as important differences in the institutions which had evolved at least up to, and in part beyond the interwar period; indeed the differences in political institutions persist in some respects to the present day. The major differences in the development of political institutions with Britain are, despite loosely similar starting points in the early C19th:

(i) The Presidency never fused with the legislature, and never had a monopoly of legislative initiation. Indeed with some qualifications (see Skowronek ([1982](#_ENREF_31))), the executive remained relatively weak until the New Deal – aside from the Post Office there was no significant administration; it was a republic of ‘courts and parties’. The President used the power of Supreme Court nominations, however, to great effect through this period.

(ii) Although the Republican Party developed a broadly coherent programme in promotion of industrial development in the *postbellum* C19th ([Bensel 2000](#_ENREF_6)), and although some of the Congresses in the pre WW1 period were among the relatively most disciplined, congressional representatives were not strongly controlled by Speaker or President and remained closely tied to the interests in the district or state caucuses which selected them[[12]](#footnote-12), interests which could differ with national party ([Bensel: Ch 3](#_ENREF_6)).

(iii) At least after the end of the failed Reconstruction period in 1877, the South was left to its own devices politically and remained backward and conservative, even more so in the Jim Crow era from 1900 until the 1950s; in most respects it had ceased to operate as a competitive democracy ([Aldrich 2011: 311](#_ENREF_3)), instead being a single party (Democrat) collection of semi-corrupt states; it was throughout hostile to or reserved about industrialisation. (There is perhaps a passing resemblance to Ireland.)

(iv) Although the Federal government attempted from the 1930s to reduce the power of state governments with partial success, the relative autonomy of *local* government (municipalities and counties, as well as more complex local institutions including school districts) has remained high, on the original model of the New England township. Education (apart from universities) and many aspects of law and order (including public prosecution, judgeships in many states and local police services) were locally chosen and partially locally financed. This is in marked contrast to Britain from the mid C19th on.

(v) The Federal judiciary, in particular the Supreme Court, played a central political role from after the Civil War, especially in framing the market environment of industrialisation.

(vi) Business had already begun from the late 1880s to play a close role in Republican party politics and finance ([Skowronek 1982: 74-5](#_ENREF_31)).

Our very loose claim (in **H2**) is that these marked differences in the development of political institutions in the US were not generated because of basic differences in the goals of the dominant reform elites in the US and the UK, but because of the location of conservative opposition to reform and industrialisation – diffuse in the UK and regionally concentrated in the US. We have already explained why centralisation of political institutions was the response of the reforming elite in Britain to diffuse conservative opposition. We explain shortly why the *de facto* maintenance of decentralised institutions was response of the American reforming elite (in the form of the Republican party leadership in the 3rd party system) after the Civil War.

Our second claim, again loose, (in **H4**) follows from the differential pattern of political institutions, and has key implications for the nature of capitalist institutions. Centralised political institutions implied protection for unions. Decentralised political institutions, although indirectly, sharply limited protection and in key areas, notably large companies, withdrew it. (This relates to the period before Fordism changed the bargaining power of semi-skilled labor, from the late 1930s on.)

We will focus on a set of interrelated differences in the capitalist institutions of the UK and the US. (The capitalist institutions of Canada, Australia and New Zealand broadly evolve in a similar way to those in the UK, as we will argue for similar political reasons.) Starting with the differences in industrial relations, these are:

(a) By the 1920s, trade unions in Britain were well established across engineering, mechanical and electrical, machinery, ferrous metals, based largely on skilled workers, in large as well as medium sized companies, and in mining, railways and public utilities. In the US, unionisation remained very weak, especially weak in the large managerial capitalism companies and the dynamic sectors in engineering, centred on locally-based craft unionism in the building trades, printing and so on, organised nationally in the AFL, and otherwise in mining and the railways as in Britain.

(b) As Chandler has notably portrayed, from the 1870s through the early interwar period, huge interstate companies were built up based on massive economies of scale and scope, organised on principles of ‘managerial capitalism’ run on a basis of systematic management using semi-skilled non-unionised labor, and mass distribution networks. This contrasts with the much smaller British companies in which unionised skilled workers were prominent and in which owner-managers played the major role in decision-making (‘personal capitalism’ in Chandler’s term). In both countries, but in different ways, competition between leading companies in different industry sub-sectors had been minimised: in the US, by horizontal ‘mergers’ into trusts, which then led to integration into still larger managerial companies (usually based on the first mover in the sub-sector), while in the UK, they remained in trusts without reorganisation, with the trust – often composed of twenty or more companies – being essentially a price-setting and quantity fixing cartel which reinforced the inefficiency of the sub-sector as no pressure was put on inefficient companies to reform nor could efficient companies take over their market share.

(c) Behind this lay a major difference in the development of competition policy in the two countries. Competition policy was not brought in in the UK until after WW2. Common law provided for the tort of ‘restraint of trade’ and contracts which restrained trade were not legally binding; but no one had an incentive to bring actions – those inside the cartel benefitted from de facto closing the market and those (typically small) firms outside the cartel benefitted both from high prices and the ability to undercut the cartel. Hence the common law had no effect in the UK – or in the US where it also applied. But US legal developments were quite different: the Sherman Act (1894) and the Clayton Act (1914) together with the Federal Trade Commission Act (1914) were jointly designed to eliminate price-setting trusts and monopolisation, and to give the Administration the power to do; in fact a distinction was drawn (initially by Teddy Roosevelt as President) distinguishing between monopolisation which increased efficiency and that which purely raised prices. These developments boosted huge size based on economies of scale and scope – they integrated operations rather than down-sizing, (against the intention of coalitions of small companies who wished the opposite from the legislation, Bensel).

(d) A much noted difference, and one used by some as a cultural explanation of the difference between managerial and personal capitalism, is the rapid expansion in the late C19th in higher education for both management and practical engineering disciplines in the US and their virtual absence in the UK (until very much later). These disciplines provided much of the manpower required for the extraordinarily rapid growth of the managerial capitalist enterprises which dominated US growth and productivity increases between roughly 1870 and the 1920s.

To summarise, from the vantage point of the 1920s, the American political system shared the basic characteristics of the British, that it was a competitive two-party democracy (outside the American South), with leadership-dominated parties and majoritarian elections. Again there were broad similarities in the operation of British and American capitalism: weak vocational training and strong general education, a fragmented working class with unionism skill-dominated, limited coordination between companies, and strong stock markets but large companies allocating capital internally (Lazonick, O’Sullivan) with little connection between banks and companies[[13]](#footnote-13). But as we have just laid out, with these basic similarities went significant differences: between a broadly centralised British and a broadly decentralised American political system; and, in the relatively advanced sectors of manufacturing, strong unionisation of skilled workers in family-run companies in the UK with weak competition law against a largely non-unionised semi-skilled workforce in giant managerial capitalist corporations in the US, reinforced by a powerfully business-oriented system of higher education. As noted earlier, the British share of world industrial output fell between 1870 and 1926-9 from 32% to 9%, while the US share rose from 24% to 42% (13, above).

What explains the American institutional divergence? Our basic argument is that the problem facing liberal nations was how to bring about reform. This was a more acute problem in the second industrial revolution of the last part of the C19th and the first part of the C20th; whereas the first industrial revolution (dominated by Britain) had been based on iron, steam, and textile machinery, the second was based on electricity, the internal combustion engine and steel, sophisticated mechanical and electrical engineering, communication technologies (cables, telephone), and a huge range of science-based discoveries in ferrous metals, chemicals (dyes), and later pharmaceuticals and plastics; with the railroads and later road transport, it permitted revolutions in management, distribution and marketing, and shifted over a half century the bulk of the population of the industrialising countries from agriculture to cities. It required a great raft of reforms in education (a literate workforce), in town-planning and sanitation, transport organisation, research, technology development and transfer, accountancy, banking, the legal system and public administration. The national governments of both Britain and the US had limited administrative and legislative capacities at the start of our broad period. At the same time, reforming elites in both countries understood the importance of economic development and of industrialisation, hence of the need for reform. As we have argued, the only path to British reform lay through political centralisation because the opposition to reform was so diffuse.

We make three main propositions, about the American route to reform through a maintenance of decentralised political institutions:

(1) *Strategic decentralization*. The starting point in our argument is this. The opposition to reform was quite differently distributed in the US than in the UK. By the late 1870s the US Republican party, very broadly the party of reform and industrialisation and more generally internal development, had won the civil war but failed to reconstruct the South (the Compromise of 1877). The opposition to reform and to industrialisation was concentred in the South. In particular industrialisation threatened the interests of plantation owners even though their black workers were no longer slaves. The South was well-organised in its opposition; in many respects the Confederacy had shown its ability to construct an effective central state during the civil war. Thus the broadly logical response of the Republican elite was to sidestep the South – at least as far as measures which would have required micro-management were concerned – and focus efforts on providing an appropriate infrastructure for industrialisation outside the South.

(2) *Local government.* The Presidency itself had limited administrative capacity (even outside the South), largely in the Post Office, in the last quarter of the C19th. By contrast, local government had relatively wide powers; it both raised the bulk of taxation and dispensed the bulk of expenditure at the end of the C19th (Oates). This was much more marked in the northern states than in the South – in part the heritage of the governance of New England township (Oates), in part the need in an ex-slave society for greater central control. In 1902 in the northern states between 80% and 90% of expenditure was local (check data in Oates). “New England has a localistic tradition dating back to its settlement, while the South has an equally ancient tradition of centralised government” ([Elazar 1972: 198](#_ENREF_14)). Elazar suggests that a broad north-south divide along these lines has been maintained, and even Stephens who argues that this division no longer holds across the general range of services accepts it may hold for public education ([Stephens 1974: 71](#_ENREF_32)). In any case, there was a relatively high proportion of public expenditure and particularly public employment at local level at the turn of the twentieth century, and it remained substantial though diminished in 1970: If domestic expenditure and employment (i.e. excluding military and diplomatic) are considered, the percentages of expenditure are 22% (federal), 10% (state) and 68% (local) in 1902; and in 1970 40.5%, 22.5%, 37%. And for domestic employment 21% (federal), 11% (state), 68% (local) in 1902; and in 1970 14.5% (federal), 23.5% (state) and 62% (local), ([Stephens 1974: 49](#_ENREF_32)).

A number of services key to reform and development, of which education was the most obvious, were provided at the local (county, municipality) level. In principle the obstacle to locally-funded public provision of for example primary education, was that wealthy citizens would refuse to pay. But white male suffrage was largely universal by the mid century at all levels of government. And as Go and Lindert show ([2010: 14-20](#_ENREF_18)) the development of primary education is well-predicted on a county-by-county basis by the extent of prior local democracy in those states (non-South) where there is local autonomy. In the southern counties in their sample, the increase in local voting between 1840 and 1850 has an insignificant effect on primary education provision in the relevant counties since decisions were made at state level. They trace the growth of public primary education in this manner through the middle of the C19th. For a *postbellum* presidency and a Republican programme geared to reform and hence the maintenance and further growth of strong primary education, arguably the hardest and certainly one of the most important areas of reform was primary education because it depended upon local collaboration. In Britain, political centralisation combined with democracy was key to educational reform as is indicated by the Forster Act (1870) – just after the 1867 Reform Act, and with a new government ministry, the Local Government Board, established in 1871 epitomising central control. But in the US, centralisation was not necessary: thus the autonomy of local government from the start of the *postbellum* regime was reinforced at least outside the South; in the South as noted above it could be sidestepped. Policing and the maintenance of law and order was more or less completely provided at the local government level, with exception of state militia (state National Guards) and much later highway patrols. (We have not yet sought data on sanitation to see whether a similar local democratically-induced mechanism was in operation, and this is a subject for future research.)

Engerman and Sokoloff argue that the pattern of democratisation and suffrage in the new states (with few restrictions) was designed to attract both internal and external immigrants who would attach importance to the implicit guarantee which the vote gave them of public provision of services, especially primary education, although they do not look explicitly at local autonomy ([Engerman and Sokoloff 2005](#_ENREF_15)).

A further illustration of the role of local government in reform, and hence of its importance to governments at both federal and state level concerned with the institutional framework of advanced capitalism, lies in the extraordinary growth of secondary education till the mid C20th. Secondary education in the form of the American High School grew rapidly over the period from the end of the C19th to WW2 based almost wholly on the local government model with no Federal and limited state help ([Goldin 1995](#_ENREF_19))[[14]](#footnote-14). This put the US vastly ahead of the UK and France in terms of human capital – while over 60% of young Americans graduated at the end of the 1930s outside of the South, less than 5% of French 18 year olds were accepted in the Baccalaureat in 1951; (the corporatist nations are harder to judge in this respect because, while secondary education was more limited, vocational training was of greater importance).

This is not meant to argue that locally-generated educational provision, however felicitous it might be for the development of advanced capitalism, was designed to be so by local voters; the provision was spearheaded by rural not urban areas; it doubtless reflected opportunities which the economy was providing, including public higher education which expanded in parallel at a lower level, largely at the state level. But it did mean that governmental concerns with key areas of public provision could be left to local government. By contrast to Britain, there was no corresponding pressure to centralise either to the Federal to the state level.

(3) *The Supreme Court.* In terms of economic development, in particular of encouraging companies to grow to a size needed to benefit from economies of scale and scope, the relative independence of the states and also of local government cut two ways. On the one hand it meant that states and cities could bid to attract companies and put as few constraints as possible on their operation. But on the other it gave these lower levels of government, especially states, the power to impose restrictions on companies operating in the state as well as to restrict imports from out of state.

Successive Republican administrations in the second half of the C19th in effect assigned to the Supreme Court the role of holding back state restrictions on the potential growth of companies and allowing lower levels of government to compete for their favors. The Presidency used the power of Supreme Court nomination to make the Court into a positive political actor, *de facto* one which marched for most of the period to the tune of the developmental agenda of the northern Republican party – although with considerable independence. The Supreme Court interpreted the Commerce clause of the Constitution first to promote the free operation of the railroads, and second to put wide restraints on the ability of states to impede large companies for whom the railroads were key to growth. The Court developed two corresponding doctrines: the first was that of dual sovereignty, which divided trade into interstate and local components, giving exclusive sovereignty to the Federal government over the former and to state government over the latter, while deciding itself on assignments of particular cases between the two ([Bensel 1990: 333](#_ENREF_5)). The second was to rule corporations legally equivalent to persons and, using the 14th Amendment, to bring corporations prevent states from ‘depriving any person of life, liberty or property without due process of the law’; deprivation of property was interpreted to mean regulation or decisions which prevented corporations from earning an adequate rate of return ([Bensel: 334](#_ENREF_5)). The Court moreover interpreted anti-trust legislation, especially the Sherman Act, in ways generally protective of the trusts under attack. The Court, according to Bensel, was ‘the dominant force in the construction of the national market economy’ until the New Deal ([Bensel: 336](#_ENREF_5)).

How is all this to be understood? There is little doubt that the Administration was aware of the position taken by the justices appointed in the last quarter century: they were largely corporate lawyers with close connections with the railroads, almost entirely Republican and a majority always northern ([Bensel 1990: 344-8](#_ENREF_5)). While Congress was in general supportive, it played a limited role in the relevant policy-making at least until the turn of the century. The simplest interpretation is that the Supreme Court, as well as the federal courts more generally, were a necessary counterpart to the relative independence of the states – including the economically poor and potentially predatory states of the South; and it was seen as such by a Republican regime with a modernising strategy at the core of which was the creation of a national market linked by a railway system ([Bensel: Ch 5](#_ENREF_5)). Had the Administration been powerful and centralised, an economically activist Court would not have been necessary.

The combination of a legal system which prevented regulation of large companies by individual states, on the one hand, and of independent states and local governments which were highly concerned to attract large companies, on the other, was a powerful one. It made the United States into a model of decentralised federalism. And it provided a political structure which enabled the extraordinary growth of the giant corporations of Chandler’s economies of *Scale and Scope* ([Chandler 1990](#_ENREF_8)).

(4) *Parties and party discipline*. The parties (with the courts) played central roles in late nineteenth century America. Party systems were not the product of a reforming government in the US in the second half of the C19th; the inter-sectional party system of the mid century on (essentially a reforming, northern, expansionist, industrial, big business, anti-slavery Republican party and a conservative, southern, anti-big business Democratic party) was the third party system. As Aldrich argues, the Republican party arose via a logic of tipping points with key politicians in the north west and north east working out whether the pre-existing Whig or Americanist or a nascent Republican party was likely to dominate opposition to the south, with very broad policy positions developing as the Republican party secured key leading politicians, as local party groups and political careers grew, and eventually with the support of the northern elites ([Aldrich 2011](#_ENREF_3)).

The Republican party was therefore the driving political force behind industrialisation (in the second industrial revolution). Its caucuses chose politicians at different levels for elective office who signed up to this agenda. Because it was a long-term institution it gave politicians an incentive to adopt long-term policies in the relevant areas.

But it developed out of strong local government. Caucuses operated at local level, apart from state and national conventions to choose gubernatorial and presidential candidates. Members of congress thus depended upon caucuses of local or district politicians (for the most part), not state or national party officers. Towns, counties, cities had important demands to make of Congress because of the degree of autonomy over policies that they exercised. Hence relatively weak party discipline in Congress reflected the acceptance of the important role of local government in reform.

The above (1) to (4) look at decentralisation through political institutions. Next we look at the interrelated role of the giant corporations, then industrial relations and finally higher education.

(5) *Managerial capitalism and anti-trust.* The form which the distribution of power took in the United States after Reconstruction was indeed decisive for the development of giant managerial capitalist corporations. Chandler is at once aware of this and dismissive: “the details of the relationships between decision-makers and local and national government bodies – which differ so much from country to country – have been left to historians of business-government relations” is the penultimate sentence of the introduction to *Scale and Scope* ([Chandler 1990: 13](#_ENREF_8)). He is moreover, at least from his comparative work, referring in the sentence largely to the German case[[15]](#footnote-15). He sees managerial capitalism in the US as having arisen from the scale of the United States geographically and demographically and from the organisational model generated originally by the private railroads in response to the great problems they faced[[16]](#footnote-16). (In our tentative perspective, we see mass immigration[[17]](#footnote-17) and demographic growth – from British and German levels in 1870 – and the construction of a great internal market as a consequence of the political structures and developmental strategy of the *postbellum* Republican regime.)

A point of particular importance in distinguishing the British and American cases lies in competition policy, which we noted in (c) above in our description of the differences between the institutions of American and British capitalism. Non-existent in the British case, anti-trust legislation (Sherman Act 1894, Clayton Act 1914, Federal Trade Commission 1914) represents the co-evolution of political institutions in response to the evolution of capitalist institutions[[18]](#footnote-18). The Supreme Court had been generally protective of large corporations and trusts in relation to the Sherman Act, to the extent of allowing what were in effect price-fixing trusts. Independent of any bias, a real problem for the Supreme Court was to distinguish between the beneficial ‘efficiency’ aspects of trusts and their price-fixing behaviour; this was because both aspects were usually present (or could be argued to be). This represented limits to the Court’s ability in making policy: in these areas it did not have the expertise to do so. By 1900 three alternatives presented themselves to successive administrations (Roosevelt, Taft and Wilson): the Sherman *status quo*, a Supreme Court strongly supportive of large corporations, many of which were already producing huge productivity gains unrestricted by unions, but which would probably have allowed price-fixing trusts on a large scale; blanket anti-trust legislation which the Supreme Court would have had to respect which would have weakened managerial capitalism; and a combination of tightened anti-trust legislation but de facto run by the administration with expertise to develop policy on the relevant questions. This latter was already understood by T Roosevelt with his Bureau of Corporations and came to fruition under Wilson in the Clayton Act and the Federal Trade Commission. Thus, by contrast to Britain, giant corporations were allowed *so long as* they were or became integrated – an incentive increased by their ability to purge craft unions and to organise production on the basis of non-unionised semi-skilled workers under engineer-foreman intensive management.

The giant corporations of managerial capitalism also played an important role in building up internally and privately many of the institutions such as accountancy and implicit contract making which in the UK were constructed outside the company sector itself. In the UK this reflected both the weakness of companies, including their lack of integration, and the relative capacity of the UK government to legislate in these areas.

(6) *Industrial relations and the working class*. Not only did Chandler dismiss the importance of politics in the construction of managerial capitalism, he equally chose not to “... describe the work done by the labor force ... or the organization and aspirations of the workers” ([Chandler 1977: 6](#_ENREF_9)). Yet the relation between managerial capitalism and industrial relations was both difficult and of great importance – and in fact only understandable within the framework of politics.

It was difficult because, as the historiography of the last three decades of the formation of the American working class, of its ideological positions, its militancy and its unions makes clear, American workers were not exceptional along any of these dimensions with the possible exception of its failure to organise on a large scale before the advent of the industrial unions in the late 1930s under Fordism ([Katznelson and Zolberg 1986](#_ENREF_23); [Shefter 1986](#_ENREF_30); [Montgomery 1987](#_ENREF_27); [Brody 1993](#_ENREF_7)). In contrast to a largely mythical view of the individualistic frontier anti-union mentality of the late nineteenth century American worker, ‘.. Tens of thousands of strikes, many of them violent, made the United States factory shop floor’ in the period 1877-1900 ‘one of the most bitterly contested labor arenas in world history’ ([Bensel 1990: 143](#_ENREF_5)), or again ‘ .. Within the manufacturing belt of the Northeast and Midwest approximately three of every four counties were the scene of at least some strike activity’ ([Bensel: 213](#_ENREF_5)). Gompers and the AFL executive had close relations with leading British trade unionists, whom they saw as adopting similarly pragmatic strategies to their own. But equally there was considerable support for socialist and syndicalist ideas. The mix of ideologies, the degrees of militancy, the range of strategies adopted by unions, just as the industries targeted, were not noticeably different to those in Britain. Nor in any sense was there a principled rejection of politics; not only was political action seen as an important weapon by the Knights of Labor, Gompers as the leading strategist of the craft union based AFL, the only industrially effective union organization in the US until the late 1930s, took a broadly pragmatic position on both the formation of a workers’ party and the alignment with an established party, while eventually rejecting both.

The two differences with British unions are in the participation rate and the close connection with of the British unions with politics. We want to explain both as a result of the political decentralisation of the American system, (**H4**) above.

The giant corporations which dominated American manufacturing had effectively replaced craft skills and unions by the early C20th, organising production on the basis of non-unionised semi-skilled workers under engineer-foreman intensive management as noted above; this was based on the engineering of new production processes, with new skilled-labor saving machinery – reducing the costs of skilled labor, permitting great economies of scale, establishing control of the workplace and eliminating potential hold-up costs when productivity and profits increased. The incentive for corporations to do this was high, and increased by the particular pressures which anti-trust legislation as interpreted by early C20th administrations put upon them. Political decentralisation reduced the cost of crushing or avoiding craft union resistance: The autonomy of counties (often big cities) and municipalities (outside the South), especially in decisions on law and order, and the desire of these local governments to attract industry both because of the financial resources it brought and because of its employment creation, made local governments into the allies of the corporations. Production facilities, which were where the problem of unionisation arose, could frequently be sited in many places so long as particular types of skilled workers were not needed.

What if skilled workers were median voters in counties? There are many cases in which local police forces were supportive of strikers, so this is clearly a phenomenon – probably in smaller localities. But in general this was not a one-dimensional policy space, as the less-skilled and the middle-classes, interested in employment and the wealth of the county respectively could form an implicit alliance against craft unions. The politics of big cities, moreover, were organised well into the interwar period by the city machine system: This cut across a median voter analysis of political decision-making, since successive waves of foreign-born workers were integrated into a clientelistic system of exchanging votes for services, including employment. Bosses had a clear interest in cooperating with corporations to keep out craft unions in exchange for the financial resources and unskilled or semi-skilled employment they brought to the city. Martin Shefter argues further that, on account of city machine politics, skilled workers operated industrially in a (potentially) union environment and residentially in a machine political environment ([Shefter 1986](#_ENREF_30)); in the latter it usually paid to obey the machine.

This was reinforced by a second aspect of the ‘decentralised political settlement’, namely the Supreme Court. In using the Commerce clause to distinguish between interstate and intrastate activities (dual sovereignty of companies), the Court understood the importance to the developmental programme of the Republicans of the giant corporation in contrast to locally-based companies. It was prepared to use both common law and anti-trust legislation against union activity which impeded its growth. But an implication of this was that craft unions could in principle unionise locally-based companies who could not move elsewhere; if all the medium to large print shops in a given area had an AFL union it could ‘take wages out of competition’ as well as ensuring worker discipline. Part of the AFL ‘business’ deal was that its affiliates would not attempt to unionise un- or semi-skilled operatives, and this also added to its attraction to employers. Thus craft ‘business’ unionism could survive, even if the development of labor-saving technology meant that it was always under threat.

At the turn of the C20th the AFL was the dominant American union organisation, so it is useful to think as Gompers thought of its incentive to get engaged politically. At the Federal level, there was little case for engagement: If the main goal of political engagement at that juncture was the creation of a favourable legal environment for collective bargaining ([Marks 1989: 101](#_ENREF_25)), the US Supreme Court had interpreted the US Constitution as saying that Congress could only legislate, as far as commerce was concerned in the area covering interstate trade. As we have suggested above the AFL strategy was increasingly not to engage with the large corporations of interstate trade[[19]](#footnote-19). Hence there was limited AFL interest in the Federal level of politics: Gompers and most AFL union leaders (but not the socialists in the AFL) had no interest in supporting the bargaining rights of semi-skilled workers. State-level politics were in principle more important to the AFL, but at this stage they were much less important than local government. While manufacturing had grown everywhere outside the South, its massive growth was in the cities, in particular in New York, Philadelphia and Chicago. But machine politics dominated these cities, as it did most large cities. And here the craft unions had little impact as discussed above.

 (7) *Higher education*. One institution which played a central role in the development of managerial capitalism in the northern states was higher education and its role in training managers, engineers and chemists – to the extent that American higher education at this stage could be described as a capitalist institution. It offers a perspective for examining the argument that the British failure was cultural (Oxford and Cambridge taught the classics and this was seen as the appropriate education of a gentleman – hence the sons of first generation industrialists did not acquire engineering or management) just as the American success by contrast was also cultural. In fact the rise of management-related higher education stemmed the Morrill Act promoted by northern senators, passed by Congress in 1862 and accepted by Lincoln; (it had been rejected by Buchanan in 1859 before secession changed the political balance in Washington). Congress provided state grants to build colleges entirely outside the Confederacy (until 1890) to teach engineering and agriculture, and then management. Thus the colleges reflected the ‘internal expansion’ strategy of the Republicans linking homestead settlement agriculture with big business. States were keen to use the grants because they attracted big business as well as settlers; little administrative capacity was required from the administration; and for the latter it was an example of the use of decentralised federalism to create competition between states to promote development.

The competition engendered by decentralised federalism reinforced weak party discipline and vice versa. For this competition gave members of Congress an incentive to lobby for both state and local interests. In turn, party officials and activists at state and local/district level had incentives to choose candidates who had shown their lobbying capacity in Washington. This was reinforced by business interests at local or city level providing resources to gain influence. Mary Rose argues that American political decentralization and British centralisation explain the greater influence that textile producers had in Washington as compared to London in the second half of the C19th ([Rose 2000](#_ENREF_29)). Thus weakly disciplined parties and managerial capitalism tied together.

The demand for higher education came from the growth of demand for managers and engineers, and subsequently research chemists and chemical engineers; the consequent supply permitted in turn the rapid growth of the large corporations; and the administrative capacities developed within the corporations in organisation, financing, accounting, as well as engineering, played a major part in the curriculum which the colleges provided.

Harvard, Yale, Princeton and Chicago provided classical educations for the sons of the wealthy, just as much as Oxford and Cambridge. But engineering and management developed in the US as professional schools enabling the wealthy young to avoid the choice. Why did this not happen in Britain? The simplest answer is that there was no (or a very limited) demand in Britain for management education, precisely because companies were not organised along managerial capitalism lines. And British companies were not for the reasons we have seen.

**Figure 1.2.4: United States** *Capitalist and Political Institutions* **C19th- early C20th**



**5. Conclusions** [to be written]

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1. Bensel (1990, ch 3) demonstrates the importance of developmental policies in political debate at the state level in party competition, arguing that Kleppner’s ‘ethno-cultural’ view of the content of state-level politics is misleading (Kleppner 1979). [↑](#footnote-ref-1)
2. The perception that it reflected fear of the mob as a consequence of the Paris Commune is wrong; the Commune was a massive defeat for the idea of revolution in France. [↑](#footnote-ref-2)
3. The problem for thorough-going reform in the 3rd Republic was that republican politicians also depended on small artisan business and shopkeepers, as well as small peasants. [↑](#footnote-ref-3)
4. Local authority (communes, municipalities) in France under the 3rd Republic was in effect shared between mayors and prefects, the latter representing some combination of the state (prefectoral corps) and the government; deputies and senators were in effect representatives of the area in Paris. [↑](#footnote-ref-4)
5. Companies in the corporatist economies, with greater emphasis on research and development as well as specialisation, took quite different forms. [↑](#footnote-ref-5)
6. In effect railway legislation in the form of private acts of Parliament up to the mid C19th operated in this manner. [↑](#footnote-ref-6)
7. Social historians, notably Daunton, are sensitive to British politics but do not analyse Anglo-American institutional differences. [↑](#footnote-ref-7)
8. Daunton quotes Balfour as saying “There is no party which does not recognize to the full all that trade unions have done, the gap which they have filled in the social organization and the impossibilities of carrying on organized labour except by an institution formed upon their model. Undoubtedly trade disputes in this country have been carried on with a wisdom and a moderation on both sides which cannot be paralleled in another industrial country.” Daunton, M. (2007). Wealth and Welfare: An Economic and Social History of British 1851-1951. Oxford, Oxford University Press.. [↑](#footnote-ref-8)
9. Because almost a precondition for becoming a leading politician. [↑](#footnote-ref-9)
10. Departments of state now had their own legal counsel who could draft legislation. This raised the importance of cabinet membership, hence the power of the Prime Minister, as it led backbenchers to work if they could through the executive if they were wishing to promote legislation. [↑](#footnote-ref-10)
11. Before 1832 virtually all districts were double-member; after 1832, 21% were SMDs, 76% double-member and 3% 3 or 4 member districts; after 1867 61% remained double-member districts; and after 1884 only 24 double-member districts – ie 48 out of 630? members. [↑](#footnote-ref-11)
12. The primary system, and also the secret (Australian) ballot, came in in 1900. [↑](#footnote-ref-12)
13. Except in financing M&As (Lazonick). [↑](#footnote-ref-13)
14. Residential class sorting of course combined with local autonomy led to eventually to great inequalities of educational provision. [↑](#footnote-ref-14)
15. Daems, a collaborator of Chandler’s wrote that ‘... history suggests that even in countries where cultural and legal differences from the United States were significant, as in Germany, the large hierarchical firm evolved if the “right” economic and technological circumstances prevailed’ Daems, H. (1980). The Rise of the Modern Industrial Enterprise: A New Perspective. Managerial Hierarchies: Comparative Perspectives on the Modern Industrial Enterprise. A. D. Chandler and H. Daems. Cambridge Mass, Harvard University Press**:** 203-225.. [↑](#footnote-ref-15)
16. In no way detracting from his scholarship – he was surely one of the greatest scholars of the twentieth century and we draw hugely on his work – his lack of interest in the wider political framework is a motivation behind our approach. [↑](#footnote-ref-16)
17. Hatton’s work on the 1870 to 1913 period shows the extent to which UK emigration depended upon host country economic growth Hatton, T. J. (1995). "A Model of UK Emigration, 1870-1913." Review of Economics and Statistics(August): 407-415. ibid.. Thus we have in mind a model in which demand growth and population growth were strategic complements in an economies of scale market permitted by managerial capitalism itself allowed by the political structure. [↑](#footnote-ref-17)
18. On all the relevant history see Winerman’s extensive discussion Winerman, M. (2003). "The Origins of the FTC: Concentration, Cooperation, Control and Competition." Anti-Trust LawJournal **71**. [↑](#footnote-ref-18)
19. This only became relevant with the CIO in the1930s with the New Deal. [↑](#footnote-ref-19)