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# **The social construction of the Great Depression: Industrial policy during the 1930s in the United States, Britain, and France**

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The Great Depression called Western nations' most fundamental ideas about economic growth into question by disrupting the march of progress. Governments responded by rejecting orthodox growth strategies in favor of new policies they hoped would turn their economies around.' In the realm of macro-economic policy, governments had followed a common orthodoxy before the 1930s that prescribed adhering to the gold standard and cutting spending in hard times; yet during the depression they adopted a new orthodoxy that prescribed exactly the opposite: currency devaluation and increased public spending.

In the realm of industrial policy – those policies designed to shape firms, industries, and markets – governments likewise tried to reverse the economic downturn by reversing their traditional strategies. Yet whereas new macro-economic policies took roughly the same form in different nations, new industrial policies took very different forms. New macro-economic policies were similar because these countries rejected similar macro-economic traditions; but new industrial policies were different from one another because these countries rejected very different industrial traditions. The United States abandoned market regulation in favor of state-led cartelization; Britain supplanted policies designed to sustain small firms with policies designed to create huge monopolies; and France replaced *étatisme* with liberalism. There is no doubt that these changes resulted from the economic shock, which acted as a "kind of independent variable" that affected all nations alike.<sup>2</sup> But what were the intervening processes that led from the economic collapse to policy shifts? I argue that in the realm of industrial policy the collapse brought changes because it disproved cultural paradigms of industrial rationality, and by extension that cultural paradigms play a central role in policy formulation in normal times.

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## Interest group approaches

Most analysts believe that public policy choices result from struggles among competing groups with different interests and differing political resources. This has long been the approach used to explain the new social insurance and labor relations policies of the thirties, and recent studies have similarly linked changes in macro-economic policy to coalitional realignments among segments of industry, agriculture, and labor.<sup>3</sup> The economic downturn led to disaffection with incumbent political parties who were blamed for the crisis or to coalitional shifts as the goals of existing groups **changed**.<sup>4</sup> New political parties subsequently gained power, with the support of new coalitions, and successfully backed new policies. However, the argument that the crisis ushered in major policy shifts because it brought new groups to power is more compelling in the realms of labor-relations policy and social-insurance policy than it is in the realm of industrial policy. For the United States, interest-group theorists argue that the New Deal was passed because the Democrats won the White House and had the opportunity to pass the kinds of legislation empowering unions and expanding social insurance that they had always backed; they ignore the fact that the New Deal industrial strategy of creating huge national cartels was antithetical to the Democrats' traditional anti-big business, pro-antitrust stance. Similarly, for Britain it has been suggested that the growth of Labour power led to the expansion of social insurance, yet the industrial restructuring efforts of the thirties were contrary to the pre-depression Labour platform, as well as the platforms of the Liberal and Conservative parties. For France it has been argued that the left-centrist and Socialist governments that won power in the thirties passed policies in support of labor that they had long advocated, but this does not explain their laissez-faire industrial stance – which was inconsistent with their previous calls for socialization of the economy.

The interest-group approach depicts political contention well, but it has not been able to account for the fact that national policy strategies normally persist over generations and survive all sorts of regime changes and coalitional **realignments**.<sup>5</sup> Nor does it account for the fact that, within any nation, diverse interest groups share an understanding of fundamental causal processes, which may lead them to agree on the appropriate means for solving any particular problem. Interest-group arguments hinge on the primacy of the material interests of groups, yet in times of stability as well as in times of change groups often express policy goals that are closer to those of their domestic competitors than

to those of their foreign counterparts. I contend that by defining policy-making as conflict this approach neglects the shared cultural understandings that can cause the policy solutions proposed by diverse groups to converge.

### **Institutional approaches**

Institutionalists have made a crucial corrective to the interest-group approach by showing that national policy styles persist over time and are not particularly responsive to interest-group shifts. Nations tend to repeat their old policy strategies again and again, they argue, because state administrative capacities influence policy outcomes in positive and negative ways. On the positive side, policy strategies remain stable over long periods of time due to the inertia of existing policy institutions, and because those institutions can be used to solve new problems. On the negative side, novel policy solutions are often undermined by weak or inappropriate administrative capacities.<sup>6</sup> This last insight helps to explain why the United States and Britain returned to their traditional industrial policy strategies after experimenting with interventionist strategies in the early 1930s.

Institutionalists do predict that policy shifts are likely to appear during crises, which create openings for change, but for the most part their work has focused on the causes of policy continuity because, by definition, the study of institutions is the study of stable social customs.' Below, I show that institutionalists have under-theorized the role of culture in modern state institutions: institutional capacities may delimit the kinds of policies that nation-states can effectively carry out, but culture shapes the kinds of solutions policymakers envision in the first place.

### **State institutions and industrial culture**

Culture has had at least two meanings in the social sciences. Most economists and political scientists use it to refer to ideational systems, which are composed of values, beliefs, and symbols.<sup>8</sup> Most anthropologists, and a growing number of sociologists, use culture to refer to a society's entire adaptive system – to social customs broadly. The first approach takes at face value a socially constructed distinction that is primary in modern societies – that between cultural and instrumental institutions – by treating as meaning-laden and meaning-driven only

those institutions societies designate as cultural. In the spirit of Weber, the second approach treats all social institutions as cultural artifacts, including and especially rationalized, instrumental institutions. The first approach also tends to situate culture in individuals in the form of values and norms; whereas, in the spirit of Durkheim, the second approach situates culture in social customs.<sup>9</sup>

Among students of modern societies the first approach has been dominant, and this has led social scientists to treat rationalized institutions as acultural. Weber would surely have found this situation peculiar, for he contended that meaning is organized around rationality in modern settings. While exceptions to the tendency to treat rationalized meaning as acultural are found in studies of the forms instrumental rationality takes in organizations and in science, students of culture have paid little attention to the forms instrumental rationality takes in governments.<sup>10</sup>

Nonetheless, the sociological literature is replete with treatments of the nature of rationalized meaning, and with suggestions about how to analyze it empirically. A cultural approach to public policy entails comparing instrumental policies to see how they represent and construct reality. How should we think about rationalized culture? First, it is now widely agreed that rationalized meaning appears in the form of institutionalized, disenchanted, means-end designations." For instance, American policies such as the Sherman Antitrust Act (1890) pursued economic growth by reinforcing market mechanisms; they thereby designated markets as the means to growth. French policy, by contrast, designated very different means to growth. Second, those designations are cultural only to the extent that they are shared within societies; cultural meaning does not encompass the idiosyncratic beliefs of political sub-groups, which I refer to here as interest-group ideologies. Such ideologies may share some of the characteristics of cultural meaning, however, they can be distinguished from it by the fact that they are not pervasive and are usually articulated as normative beliefs (e.g., private property should be abolished) rather than as mundane, instrumental beliefs (e.g., market competition increases industrial efficiency). Third, rationalized social systems treat inter-subjective means-ends designations (hereafter meaning) in much the same way as they treat scientific laws; as universal, transhistorical tenets of reality that may be falsified and superseded.<sup>12</sup> Minor empirical inconsistencies may lead to revisions of the existing meaning system, but major inconsistencies are likely to produce alternative explanatory frameworks. The Great Depression constituted just such a major inconsistency.

Rationalized meaning permeates modern economic institutions in the form of what Kenneth Dyson calls "industrial culture" – the institutionalized logic of economic organization within a country. Industrial culture refers to the economic customs that structure industries and economies, and simultaneously to the means-ends designations that are socially constructed in the process of the enactment of those customs. Industrial cultures vary substantially across countries and they change over time. Despite the fact that they can change, industrial cultures tend to retain certain basic characteristics. Thus for most of the past century, industry in the United States has been organized around natural selection processes in free markets; industry in Britain has been organized around entrepreneurial autonomy from state and market interference; and industry in France has been organized to a greater extent around centralized public decision-making and coordination.

In the governmental sphere industrial cultures are fostered and reinforced by sets of industrial policy customs with attendant logics of state intervention. Borrowing from Peter Hall, I refer to these as industrial policy **paradigms**.<sup>13</sup> Like industrial cultures, policy paradigms encompass both customs, in the form of policy practices, and attendant means-ends designations, in the form of tenets of governmental intervention. Industrial policy paradigms are the public-policy correlates of industrial cultures that help to shape economic customs. The United States' market-centric industrial culture is paralleled by a policy paradigm organized around antitrust policy and market regulation. Britain's firm-centric industrial culture is paralleled by a policy paradigm organized around supports for small firms. France's state-centric industrial culture is paralleled by a policy paradigm organized around public concertation of the economy.

In normal times countries employ these paradigms to develop new policies, and they thereby reproduce national industrial policy styles. In the post-war period, for instance, to promote the semi-conductor industry the American government reinforced market competition, Britain bolstered particular firms, and France consolidated and nationalized the sector. Although economic downturns usually cause nations to employ orthodox growth strategies, crises of major proportions may challenge the veracity of national industrial-policy paradigms, and may cause nation-states to abandon them in the same way that scientists abandon failed scientific paradigms. That is what happened during the Great Depression; the economic collapse served to falsify rationalized industrial policy paradigms and caused nations to embrace new ideas, albeit

briefly. Each country embraced ideas that were contrary to its traditional paradigm because it appeared that traditional strategies had not merely been ineffective, but had produced economic contraction.

More broadly, in rationalized cultures economic fluctuations play a central role in the social construction of strategies for achieving growth. When new policies are followed by growth, nations believe them to be effective, yet when they are followed by decline nations take them to be ineffective and try other things. Here there is a subtle distinction to be made between the cultural perspective and the realist view. Realists follow in the utilitarian tradition of John Stuart Mill and Adam Smith by contending that policy choices are made by rational actors who constantly search for the policies that will best foster prosperity.<sup>14</sup> This perspective leads realists to begin with the premise that new policy orthodoxies are more rational than those that they supplant, and to concentrate on constructing political arguments about why each new orthodoxy was not embraced sooner.<sup>15</sup> Underlying their arguments is a belief that universal economic laws select the most efficient policies for survival, and hence policy shifts represent positive evolution. I concur that actors behave as if such economic laws exist and follow the institutionalized, scientific, decision rules of instrumental rationality, but contend that both the idea that there are universal economic laws and the very notion of instrumental rationality are cultural constructs. In short, actors behave as if there are universal economic laws that they can discover and it is their belief in such laws that motivates their behavior, rather than actual economic laws. One potential difficulty in supporting this cultural approach empirically is that realists, who argue that nations learn economic laws from their experiences, can claim to have explained the transition to any new policy strategy that is widely believed to be superior to the strategy it superseded; for instance the transition to neo-orthodox macro-economic policies. In this article, I show that each of these nation-states generated a variety of different economic and industrial policies for recovery, and then came to believe in policies that were followed by growth. The realist view is undermined by two pieces of evidence. First, nations came to believe in the virtue of policy strategies that economists later argued had no effect on recovery. Second, during the 1930s different nations came to believe in entirely different, and often contradictory, strategies. One final caveat: below I focus on the understandings of the Depression that came to be influential in each nation rather than on the role of agents in promoting those understandings because I am most interested in the content of understandings. This is not to suggest that the particular

understandings were overdetermined by state structure, but rather that countries would come to blame the downturn on something they had been doing.

### **Public policy during the Great Depression**

The pages that follow chronicle the effects of the Great Depression on the industrial policies of the United States, Britain, and France. First, in each case sustained economic growth had helped in the social construction of indigenous industrial cultures and the policy paradigms that supported them as indispensable to prosperity.<sup>16</sup> In the United States that meant market processes and policies to enforce market competition; in Britain it meant the multitudes of family-controlled firms and policies to protect those firms; and in France it meant state tutelage of industry and associated bureaucratic interventions.

Second, the unprecedented severity of the economic downturn called traditional industrial cultures into question and, like scientists rejecting failed scientific paradigms, these countries rejected industrial orthodoxy. Instead of utilizing traditional policy paradigms to restore economic growth, these countries adopted policies that were contrary to their traditions. The United States replaced antitrust with state-led cartelization; Britain replaced protections for small firms with efforts to create monopolies; France replaced concertation with *laissez faire*.

Third, each country revived traditional industrial institutions by the end of the depression because new industrial policies had not received credit for the restoration of economic growth. In the United States cartelization was not followed by quick recovery and Americans soon rejected it. In Britain industrial reorganization was never achieved, and the early devaluation was instead credited with the rapid recovery. And in France successive regimes practiced liberalism, but the French economy continued to decline long after other countries had recovered and the French came to see liberalism as ineffective. Soon traditional industrial policies were exonerated and all three nations brought them back into force.

Macro-economic policies and weak banking regulation eventually received the brunt of the blame for the economic crisis for several reasons." First, it was easier to carry out counter-cyclical spending, devaluation, and controls on banks than it was to change industrial



policy – which involved changing the way all of industry was organized – thus in each country macro-economic and regulatory changes were effected *before* recovery began and were linked in the public mind to recovery. Second, to observers of the international scene it appeared that national economies recovered in the order in which they devalued their currencies (first Britain, then the United States, and then France among the cases examined here), which tended to support arguments about the salience of macro-economic policy. Third, because the depression affected all nations, analysts began to look for an international explanation – a policy strategy that all countries shared, such as macro-economic orthodoxy. There was no common industrial policy orthodoxy, thus it seemed wrong-headed to blame any country's idiosyncratic industrial-policy approach.

The crux of my argument is that the Great Depression falsified the tenets of extant industrial cultures and caused nations to try to counteract the effects of pre-existing policy paradigms, which they believed had contributed to the economic decline. Political-conflict arguments are contradicted by the fact that in each country the political party that gained power pursued new industrial policies that were inconsistent with its long-held ideological goals – but that promised to reverse the traditional industrial strategy, which appeared to have precipitated the decline. Moreover oppositional parties concurred with the broad sweep of incumbents' industrial policy proposals because the depression had disconfirmed their *shared* notions of the causes of growth. This points to an all-important distinction that interest-group analysts fail to make between shared cultural beliefs about how the world works, which are often mundane and instrumental in character, and particular interest-group ideologies. While interest-group arguments are frequently compelling in case studies, because it is true that new policies must receive support from important political factions, the comparisons made here suggest that shared cultural notions of causality often underlie policy preferences.

Like political-conflict arguments, recent institutional arguments are unable to account for the main shifts in industrial policy during the 1930s. Those theories should predict that nations would pursue habitual means of promoting industrial growth when faced with a downturn. Yet, instead of reinforcing antitrust (U.S.), or augmenting protections for small firms (Britain), or expanding public industrial tutelage (France), these countries did exactly the opposite of what they customarily did. Institutionalists do not offer a way to understand those

changes, although they do offer some insights into why new policies were not sustained.

## **The New Deal**

During the nineteenth century, American industrial culture underwent a fundamental transformation. In the early decades after liberation from Britain, state and local governments had participated directly in the development of banks, canals, railways, and factories via public stock subscriptions, bond sales, loans, land grants, tax exemptions, and the extension of eminent-domain privileges.<sup>18</sup> In the process, they contributed to an industrial culture in which state and municipal leadership was key to prosperity. However, in the last half of the nineteenth century, industrial cartels, monopolistic trusts, and governmental corruption revived the specter of economic tyranny that had catalyzed the Revolution, and this led to industry regulation, anti-monopoly policies, and legislation that would preclude future governmental finance of industry. The Act to Regulate Interstate Commerce (1897), the Sherman Antitrust Act (1890), the Federal Trade Commission Act (1914), and numerous state-level bills regulating industries and outlawing public financing of private enterprises sought to reinforce market competition, preclude restraints of trade, and prevent state domination of industry. While these policies were conceived to guard economic liberties,<sup>19</sup> rather than to promote prosperity, their presence during a period of unprecedented economic growth led Americans to believe that economy-wide rationality resulted from the operation of natural-selection mechanisms in free markets. Antitrust and regulatory policies were soon cast as the nucleus of a new industrial-policy paradigm that would achieve economic rationality by reinforcing market mechanisms. In that new paradigm, government supports for market mechanisms were framed not as state interventions in economic life, but as support for natural economic processes.<sup>20</sup> Antitrust policy reinforced market competition by preventing cartelization and price fixing, and regulatory bodies established to oversee such industries as the railroads supported markets by precluding collusion and monopolistic pricing.

### *The depression: A challenge to market rationality*

Herbert Hoover responded to the stock market crash of 1929 by embracing this industrial policy paradigm of antitrust and industry

regulation. On the macro-economic front as well, he pursued orthodox strategies to reverse the downturn; he cut spending and guarded the value of the dollar. Because the economy continued to deteriorate, Hoover's stay-the-course approach "spectacularly failed to inspire public confidence," and Americans voted Franklin Roosevelt into office in 1932 on the basis of his promise to pursue "bold persistent experimentation" to find a solution to the economy's malaise.<sup>21</sup> Traditional policies were now deemed ineffective, and Roosevelt promised to try novel solutions. In his first hundred days in office, Roosevelt and his "brain trust" pushed a long list of novel laws through Congress: the Emergency Banking Act, the Economy Act, the Federal Emergency Relief Act, the Agricultural Adjustment Act, the Emergency Farm Mortgage Act, the Tennessee Valley Authority Act, the Truth-in-Securities Act, the Home Owner's Loan Act, the Glass-Steagall Banking Act, the Farm Credit Act, and the Railroad Coordination Act.

The Roosevelt Administration altered the course of public policy dramatically in four domains. They sought to soften the effects of the depression on the public 1) by expanding social insurance via the Emergency Relief Act of 1933 and the Social Security Act of 1935, and 2) by empowering unions via Section 7A of the 1933 National Industrial Recovery Act (NIRA) and the Wagner Act of 1935. They sought to reverse the economic decline with 3) the policies of the First New Deal (1933–35), which promoted cartelization and federal coordination for industries through the National Recovery Administration and for farmers through the Agricultural Adjustment Administration, and with 4) novel macro-economic policies, such as devaluation and the proto-Keynesian deficit spending of the post-1935 Second New Deal public-works projects.

The new social and labor policies were stalwarts of the Democratic agenda and they closely resembled policies Roosevelt had promoted as governor of New York. Political conflict theorists correctly suggest that changes in these realms resulted from a shift in control of the White House, which put Roosevelt in a position to push the Democratic agenda forward.<sup>22</sup> However, Roosevelt strayed far from the traditional Democratic agenda on industrial and macro-economic policies. When it came to industrial policy, the Democrats had been ardent supporters of antitrust and regulatory policies, which circumscribed the power of big business. As early as 1912 when he was a New York state senator Roosevelt championed antitrust, arguing; "A trust is evil if it is monopolized for the benefit of a few and contrary to the interests of the

community. Just as long as trusts do this it is necessary for the community to change this feature of them." He went on to insist on the importance of railway regulation: "So, too, with common carriers – as long as they fail to fulfill the needs of the community they must be, and are being regulated."<sup>23</sup> However, in 1933–34 Roosevelt led a massive campaign to cartelize industry that overturned these antitrust and regulatory policies. Roosevelt's record on macro-economic policy was similar; although he had long been advocate of currency stabilization, Roosevelt went off the gold standard, and having advocated balanced budgets during economic crises, he championed Keynesian counter-cyclical spending after 1936. Political-conflict theorists are at a loss to explain the Democrats' turnaround on issues that had been so central to them. I argue that the Democrats switched directions because anti-trust and industry regulation – policies designed to reinforce market principles – had been discredited as means to economic growth by the collapse of the economy. I also argue that Roosevelt's novel industrial recovery policies initially won wide bi-partisan support because before the depression Democrats and Republicans alike had believed in the efficacy of markets, and in the utility of antitrust and industry regulation to support markets, and during the crisis they jointly rejected these tenets of industrial culture. The business opposition that undermined the NRA emerged largely after the cartelization scheme had failed to turn the economy around and had been thwarted by industry, leaving only protections for wages and unions intact.

The Administration's diagnosis of the crisis in industry was that the economy had outgrown market principles of organization, and that the latter were now producing industrial disorder and disarticulation. Following the failure of traditional policies during the Hoover years, Roosevelt proclaimed a new era of industrial coordination and cooperation. He spurned the idea that self-interested profit-seeking was the raw material of economic growth and adopted the rhetoric of cartelization by blaming "those forces which disregard human cooperation and human rights in seeking the kind of individual profit which is gained at the expense of his fellows." He insisted that economic liberty should not be equated with individualistic self-interested behavior: "The freedom and opportunity that have characterized American development in the past ... do not mean a license to climb upwards by pushing other people down." Most of all, Roosevelt called for business leaders to shed their competitive ethic and work together in the coming era. "Only through the submerging of individual desires into unselfish and practical cooperation can civilization grow." Roosevelt and his aides

argued that competition had been appropriate for the earlier pioneer economy, but had become outmoded with the rise of huge interdependent firms.<sup>24</sup> They promoted a new industrial culture based on cartelization, which entailed both price fixing and production agreements, that was contradictory to America's traditional market-centric approach.

New Dealers repudiated the American idea that the key to prosperity was to enforce market mechanisms in order to ensure that selection pressures would transform the self-interested behavior of individual citizens into efficient growth at the aggregate level. As Andrew Shonfield has argued, "The principle of competitive enterprise in pursuit of maximum profits was regarded as superseded; in its place there was a vision of organized industries in which the producers shared out their task on rational basis." In Roosevelt's words, "we have never before realized our interdependence on each other ... if we are to go forward, we must move as a trained and loyal Army willing to sacrifice for the good of the common **discipline**."<sup>25</sup>

New Dealers thus challenged the traditional policy paradigm that had supported an industrial culture based on market competition. Whereas antitrust and regulatory policies had led Americans to believe that the state should play the role of industrial referee, with no power to direct the actions of producers, Roosevelt now argued that the absence of active public industrial coordination had contributed to the downturn. He posed the limited public role in industry his predecessors had pursued as irresponsible: "For twelve years this nation was afflicted with a hear-nothing, see-nothing, do-nothing Government ... Nine crazy years at the ticker and three long years in the breadlines!" New Dealers articulated a new ideology of state-industry relations; they called for state institutions to be rethought and adjusted "from the individualistic era of the past to the interrelated coordinated era in which we are now living." Roosevelt challenged America to abandon governmental market reinforcements, which Americans had thought of as simple supports for natural economic mechanisms, and instead allow the government to help oversee industrial development. In the words of new Assistant Secretary of State Raymond Moley, "the world which [*laissez faire*] once ruled is gone – forever."<sup>26</sup>

Ellis Hawley captures the rapid, if short-lived, reversal in industrial symbolism brought about by New Dealers and business spokesmen:

'Competition' became 'economic cannibalism: and 'rugged individualists' became 'industrial pirates.' Conservative industrialists, veteran **antitrusters**, and classical economists were all lumped together and branded 'social Neanderthals,' 'Old Dealers,' and 'corporals of disaster.' The time-honored practice of reducing prices to gain a larger share of the market became 'cut-throat and monopolistic price slashing,' and those engaged in this dastardly activity became 'chiselers.' Conversely, monopolistic collusion, pricing agreements, proration, and cartelization became 'cooperative' or 'associational' activities; and devices that were chiefly designed to eliminate competition bore the euphemistic title, 'codes of fair competition.' A whole set of favorable collectivist symbols emerged to describe what American law and the courts had previously, under other names, regarded as harmful to society.<sup>27</sup>

The economic collapse had served to disconfirm the canons of America's industrial culture, and to delegitimize the policy instruments that had supported markets, thus the administration characterized market enforcement as a foolish approach to governing this highly interdependent economy composed of huge, indispensable firms.

### *The New Deal and industry organization*

With a rhetoric of coordinated economic growth and industrial cooperation, Roosevelt installed a new set of industrial policies that had first been outlined in the recovery plan of General Electric's Gerard Swope.<sup>28</sup> First, he struck down existing policies that reinforced market mechanisms. At Roosevelt's behest Congress suspended antitrust legislation and passed the Railroad Coordination Act (1933) – turning back the clock on both the Sherman Antitrust Act and the Act to Regulate Interstate Commerce. Next Roosevelt's aides wrote the National Industrial Recovery Act (NIRA), passed on June 16, 1933, which turned American industrial policy on its head.

The Act created the National Recovery Administration (NRA), which encouraged firms to form federally-backed industry cartels that would write "codes of fair competition" composed of pricing agreements and production restrictions. Under the Act, the NRA was to set up an industry section paralleling each major industry group that had written a code (e.g., steel, textiles) to oversee the operation of the code. This massive economy-wide cartelization was exactly what the entire constellation of pre-depression federal industrial policies had sought to prevent. New Dealers put pressure on major industries to set an example by adopting codes quickly, and by 1934 virtually all of American industry had signed on.<sup>29</sup>

This new policy approach was based on the premise that America's industrial culture, and her associated policy paradigm, had contributed to the downturn. American "faith in the market was challenged by the crisis and Roosevelt's administration articulated a contradictory theory of industrial growth, and forged new state institutions to accompany that theory, with the conviction that a policy reversal would turn the economy around. The guiding principle of the new policy approach was that "private ownership could not simply be left to the unpredictable and often perverse guidance of market forces; there had to be central control." As Arthur Schlesinger, Jr. argues:

The tenets of the First New Deal were that the technological revolution had rendered bigness inevitable; that competition could no longer be relied on to protect social interests; that large units were an opportunity to be seized rather than a danger to be fought; and that the formula for stability in a new society must be combination and cooperation under enlarged federal authority.<sup>30</sup>

The NRA's code system offered industrial corporatism to remedy the crisis, and New Dealers heralded an era of federal industrial coordination.

Perhaps the best evidence for the role of collective meaning in the policy process is found in the remarkable consensus among Americans that federal market reinforcements had contributed to the crisis, and that an application of the reverse strategy would effect recovery. Diverse groups, from trust-busters to big business, believed that the depression had been brought on by excessive competition and that some sort of coordination was the remedy. Even Herbert Hoover was in broad agreement with Roosevelt's diagnosis of the crisis; to help resolve it Hoover advocated private business associations, but wanted them to operate without federal intervention. Moreover, the interest groups that were fundamentally at odds on such policies as the Wagner Act and international trade – labor, agriculture, and various industrial fractions – tended to concur that cartelization was needed. Virtually no one advocated traditional market-reinforcing policies to revive growth.<sup>31</sup> Different political factions had predictably different visions of how industrial cooperation would work, as Ellis Hawley suggests. Democrats saw a need for a some degree of state control; labor hoped for a marked expansion of the role of the state in industry; Republicans believed cooperation should be a private matter. However, diverse groups came to broadly similar conclusions about what had caused the Great Depression because they had shared an understanding of the

nature of progress before the 1930s, and the downturn challenged that collective understanding and undermined the legitimacy of the policies linked to it.

### *The end of the First New Deal*

At first industry seemed to be solidly behind the NRA. In the summer and fall of 1933 firms signed industry-wide "codes of fair competition" by the thousands and Americans cheered the end of the depression in NRA parades across the country. By the end of the year some 500 industries had voluntary written codes, and at the peak of the movement in 1934, 96 percent of American industry was covered by codes.<sup>32</sup> The new scheme for industrial cooperation had inspired great optimism among business leaders. However, business leaders came to oppose the Recovery Act after the economy did not experience rapid recovery, because the Act also protected wages and bolstered union bargaining powers. To business leaders, the inclusion of labor provisions in the NIRA had been a matter of practical politics: "if the industrialists were to be given the power to write enforceable codes of fair practice, labor must at least be given some formal recognition of its right of collective bargaining." The Act required participating industry groups to set minimum wages and maximum working hours in order to redress the exploitative employment practices that had proliferated in the labor-abundant years of the depression. Section 7a also guaranteed workers the right to collective bargaining. While industry had largely favored price-fixing and production agreements, by mid-1934 those anti-competitive elements of the Act, designed to effect recovery, were judged to be ineffective. As a result, in July of 1934 the NRA's Office Memorandum 228 called for the restoration of competition and the use of price restrictions in "codes" only to prevent below-cost pricing. As the Administration abandoned cartelization, the NRA began to focus on enforcing the labor and wage provisions, and business leaders came to see the Act as a New Deal for labor alone.<sup>33</sup>

Corporate resistance to the Act had centered around labor provisions from the very start. Key firms, such as Ford, flatly refused to sign the industrial "codes of fair competition" so long as they required firms to bargain with unions. Firms that did sign frequently refused to comply with the clauses governing wages and hours; for instance 15 percent of textile firms broke an agreement not to work women at night, which caused the code to collapse. Firms had also resisted compliance with



the "codes" when resistance was in their financial interest; for instance, some cotton firms delayed signing the industry's code so that they could stockpile inventory before the production restrictions went into effect. By early 1935, the NIRA was widely considered a failure because it had not effected recovery, and firms increasingly resisted compliance with the code provisions: "when the Supreme Court declared the NIRA unconstitutional ... it toppled an extremely unstable structure."<sup>34</sup>

When the economy did not experience a dramatic turnaround in late 1933 and 1934, groups of all political stripes lost faith in cartelization as a recovery strategy and began arguing against the Act on the basis of traditional interest-group claims. Big-business leaders opposed the Act's expansion of labor powers; labor groups opposed the resulting price increases and weak labor protections; antitrusters argued that it created industry cartels and undermined competition; and small business argued that it merely bolstered the powers of huge firms.<sup>35</sup>

While Americans quickly rejected the industrial tenets of the First New Deal because the economy continued to stagnate, their interpretation of events might have been quite different had the Administration been able to enforce the codes until the economic upswing of the mid-thirties began. If it had still been in force, industry cartelization might have been credited with the economic revival. Why was Roosevelt unable to sustain industry compliance? The brain trust had revolutionized America's industrial policy paradigm, but they left the state's weak administrative structures intact because they believed coercion would be unnecessary. The federal role, as Daniel Roper explained, "is not to dictate but to coordinate, guide, and stimulate all to wisely help themselves"; thus the NRA was not given powers that would enable it to control industry. NRA architect General Hugh Johnson insisted that the plan aimed to minimize state interference: "The idea is that industry shall govern itself." Or in Roosevelt's words, "Our true destiny is not to be administered unto but to minister to ourselves." Not only did the administration lack the will to dictate to industry, the NRA lacked the expertise, manpower, and authority to exercise close supervision. Rather than expanding the federal industrial expertise that existed in the Federal Trade Commission and the Department of Commerce, Roosevelt set up the NRA as an autonomous agency staffed largely by furloughed industry officials. NRA officials catered to their allies in private industry rather than dictating to them, and the small staff had little energy to oversee compliance because it was overwhelmed with

gathering statistics from firms. The automobile code authority, for instance, changed its code five times without once bothering to contact the NRA's overworked Division Office.<sup>36</sup> Moreover, the private code authorities that created and oversaw the codes were more in touch with what firms were doing, but had no powers of enforcement and found themselves unable to hold firms to the code stipulations; when one firm broke an industry's code others soon followed suit. In short, weak state capacities coupled with Roosevelt's desire to make cartels voluntary, rather than mandatory, doomed the NRA in the face of public opposition. That opposition had been nurtured by the economy's continued stagnation: Americans soon believed that Roosevelt's industrial prescription had been disproved.

On 27 May 1935 the Supreme Court unanimously struck down Title 1 of the NIRA, siding with Brooklyn's Schechter kosher chicken corporation, who argued that the Act exceeded federal powers. Roosevelt made no effort to revive the NIRA's cartelization scheme because Americans had come to the conclusion that their industrial traditions had not precipitated the decline, and because the business community now firmly opposed the NIRA's surviving labor protections. By contrast, when the Court struck down Roosevelt's popular Agricultural Adjustment Administration, which played a role similar to that of the NRA, he quickly put together a bill to revive it. As Andrew Shonfield argues, once federal policies got banks back on their feet and put money in people's pockets business morale returned; "It is remarkable how soon this wave of new ideas, seemingly so powerful, was reversed." As Thomas Ferguson puts it, "the half-life of the NRA was short even by the admittedly unstable standards of American politics."<sup>37</sup> The idea of industry cartelization under federal auspices had run its course.

### *Market enforcement redux*

The demise of the First New Deal in 1935 put an end to the new industrial policy paradigm that Roosevelt had promoted with such fanfare in 1933. The Second New Deal, which emerged after 1936, stood on two legs; a reinvigoration of antitrust laws to restore market competition and the deliberate adoption of proto-Keynesian deficit spending to redress the slump of 1937–38.<sup>38</sup> Whereas, when asked in 1933 whether he approved of industrial coordination, Roosevelt replied "I have never felt surer of anything in my life," by early 1938 he was again advocating antitrust and industry regulation, and arguing that

economic concentration was the cause of the nation's continued stagnation. Roosevelt set up the Temporary National Economic Committee in 1938 to investigate industry efforts to undermine competition, and appointed the zealous Thurman Arnold to head the Justice Department's Antitrust Division. Arnold presided over the most active period of antitrust enforcement in history, and the ensuing recovery restored confidence in antitrust law.<sup>39</sup>

Several elements of the two New Deals survived the thirties to shape public policy for the rest of the century. Macro-economic policy was changed in the wake of the apparent successes of devaluation and counter-cyclical federal spending programs: Keynesianism subsequently became the new orthodoxy in the United States as elsewhere. Labor policy was altered by the Wagner Act of 1935, which expanded the union prerogatives included in Section 7a of the NIRA; as a result unionization skyrocketed in the late 1930s and early 1940s. Social policy was permanently changed by the experiment with relief, by the passage of the Social Security Act in 1935, and by the expansion of wage and hours regulation. Federal regulation of the banking and securities sectors was enlarged permanently. However, by 1938 America's old industrial policy paradigm was back in full force, and American confidence in market competition was soon restored. The NIRA's vision of a cooperative, cartelized economy died in 1935. As James Holt puts it, "New Dealers had denounced economic individualism and competitiveness as outworn creeds and had proposed to put cooperation, neighborliness, and national unity in their place. Any substance that may have lain behind these slogans, however, collapsed with the NRA."<sup>40</sup>

How do competing explanations of policy stand up in this first case? To begin with interest-group arguments, it is important to disentangle the industrial recovery segment of the NIRA from its labor-law segment. Interest-group arguments do not explain the Democrats' industrial recovery scheme, because they had previously championed antitrust and market regulation as means to foster growth and the NIRA's recovery strategy represented the opposite approach – cartelization. However, interest-group arguments do explain the passage of the labor provisions of the NIRA, which the Democrats had long advocated; and they explain the business community's eventual rejection of the NIRA for its pro-labor clauses. Interest-group arguments also clearly explain the passage of the pro-labor Wagner Act and the Social Security Act, because Democrats had long favored such policies and now had the chance to pass them.

Second, current institutional thinking helps to explain the failure of the NRA but not its origins. Following this line of argument, administrative traditions should have encouraged policymakers to utilize existing policy strategies to remedy the crisis: they did not. In fact, Washington experimented with new policy strategies in virtually every major policy realm.<sup>41</sup> On the other hand, it is clear that the federal government's weak enforcement capacities, in conjunction with Roosevelt's belief in voluntarism, did undermine the successful implementation of the NIRA.

Third, the cultural argument I have been advocating, which turns on the centrality of rationalized cultural meaning in the creation of instrumental public policies, is supported by the evidence on industrial policy during the 1930s. As we have seen, policymakers argued explicitly that America's industrial traditions were ill-suited to the modern economy, and that this had been proven by the economic decline. Throughout the decade successive economic vacillations determined whether policy initiatives would be viewed as successful. The decline had at first led Americans to reject industrial traditions and embrace Roosevelt's program for industry cartelization, yet in 1934 and 1935 the worsening economy led Americans to reject the NRA. Then the deterioration of the economy after mid-1937 led Roosevelt to reinvigorate traditional antitrust policies. Changes in economic performance affected perceptions of macro-economic policy as well. Roosevelt's public-works programs inadvertently produced counter-cyclical spending before 1935, and they appeared to stimulate growth. As a consequence, Roosevelt tried to repeat this success from early in 1938 by championing deficit spending to expand the nation's buying power. The economy subsequently improved, which lent support to Keynes's claims and helped to institutionalize his ideas about macro-economic management.<sup>42</sup> Of course, the fact that macro-economic orthodoxy was a more plausible culprit than was antitrust policy, because other countries affected by the depression had followed it as well, also contributed to the success of neo-orthodoxy. Americans also attributed blame for the crisis to inadequate public regulation of the banking and securities sectors, however experts argued that expanded regulation could prevent future crises but that it was too late to remedy the current crisis with regulation; hence Americans continued to believe in the new financial regulations Roosevelt installed even after the economy worsened.

## British rationalization

British recovery policies reversed a distinctly different set of industrial traditions. British policy had traditionally bolstered small firms, rather than markets, and during the thirties the British rejected efforts to sustain multitudes of small entrepreneurial enterprises as outdated and ineffectual, and embraced a new industrial ideology in which growth would result from the creation of large monopolistic firms that could achieve economies of scale and employ state-of-the-art technologies.

The British had forged industrial policies that they believed supported natural economic processes without unnecessarily meddling in the private economy, like the Americans, yet the British worked with a very different notion of economic naturalism. When the industrial revolution came first to Britain her weak government was taken to be a prime cause, and such thinkers as Adam Smith and Jeremy Bentham linked progress to Britain's maximization of individual economic liberties. Laissez faire became a positive prescription for growth. However, by the 1880s the United States and Germany had begun to compete for British markets, and Whitehall took steps to guard domestic firms – steps that would alter the character of British industrial culture and cause it to diverge sharply from that of the United States. U.S. policy protected economic liberty by precluding "restraints of trade" that hindered market entry and firm survival; antitrust and industry regulation bolstered market mechanisms. British policy protected economic liberty by reinforcing the boundaries between firms to prevent monopolization and the demise of the small firms; governmental supports for cartelization and restrictions on mergers bolstered small firms.<sup>43</sup> British policies designed to shield firms against bankruptcy and takeover contributed to a vision of progress, a la Adam Smith, in which growth resulted from the aggregate effects of innovation and entrepreneurial spirit among masses of small independent firms – an understanding that contrasts sharply with the American vision, a la Charles Darwin, in which growth resulted from the selection pressures of market mechanisms on firms. In the words of Stephen Wilks:

A major operational value of British industrial policy is not maintenance of market principles (as in West Germany), the national interest (as in France) or the productivity of the enterprise (as in Japan) but *rather a concern to sustain the autonomy of the firm*. This concern ... presupposes that national economic benefit (the good of all) is derived only from the individual's (in this case the individual firm's) interpretation and unfettered pursuit of personal benefit.<sup>44</sup>

British cartels may have interfered with free price-setting by participating firms, but more importantly they helped to keep small firms from being gobbled up by their larger competitors. Parliament avoided practicing economic tyranny by eschewing blanket industrial legislation, and instead adopted policies favored by affected firms on an industry-by-industry or sometimes a firm-by-firm basis. They had authorized various cartel agreements among private parties with the logic that free firms should be able to make such contracts as they pleased. They also approved the creation of industry groups in such sectors as cotton manufacturing (1873), construction (1878), shipping (1890), and engineering (1896), and watched over the creation of huge industrial combines in cement, wall paper, tobacco, and calico printing between 1898 and 1901. In sharp contrast to congressional policy, Parliament condoned the railways' annual rate-setting conferences.<sup>45</sup> In a number of situations, however, it became clear that Parliament's goal was not simply to maximize economic liberty. For instance, from the 1870s Parliament frequently denied railway firms permission to merge in order to guard the independence of (consenting) prospective partners. In brief, Britain's industrial policy paradigm aimed to protect firms from state interference but also from other destructive forces such as markets and predatory competitors; firm autonomy was sacred. Other policies designed to support independent firms included tariffs on imported goods and selected subsidies to keep weak firms afloat. American and British policy-makers alike embraced a Jeffersonian vision of an economy based on small shopkeepers and entrepreneurs, but Americans tried to sustain such an economy by reinforcing market mechanisms (which led to consolidation), while the British tried to sustain in by reinforcing firms (which led to collusion).

### *The depression: A challenge to firm-centered laissez faire*

The British economy had been on a downhill slide for a decade when the depression hit the country at the end of 1929, and the customary stopgap measures of protectionism and cartelization had already proven useless. The inability of Stanley Baldwin's Government to stem the decline helped bring to power Britain's first sustained Labour Government in 1929 under Ramsay MacDonald. Lloyd George later argued that by the end of the twenties traditional growth institutions had failed conspicuously in the minds of the British.<sup>46</sup> Britain altered industrial and macro-economic policies in ways that "would formerly have been regarded as revolutionary changes" but which were taken in

stride by a country disenchanted with orthodoxy.<sup>47</sup> The Government went off the gold standard to devalue the pound in 1931, and this was credited by many with Britain's early recovery. In industrial policy Parliament eschewed *laissez faire*, rolled up their sleeves, and passed legislation to restructure entire sectors on a case-by-case basis beginning in 1930. Social policy changes were more incremental, for instance the Unemployment Act of 1934 merely fortified the existing system.

There is compelling evidence that industrial policy shifts were not simply the result of a regime change, as political theorists would suggest, in the fact that MacDonald's policies as Labour leader, as well as those of his coalition National Government between 1931 and 1935 and those of Conservative Stanley Baldwin's Government after 1935, did not reflect traditional British party agendas. New industrial policies were antithetical to Conservative traditions, and they were orthogonal to Labour's stated agenda of socialization of the economy. These new policies were attractive to the British because they overturned the industrial policy paradigm that had apparently precipitated Britain's decline.

When it came to macro-economic policy, MacDonald at first adhered to the gold standard and was so committed to fiscal orthodoxy that he cut unemployment insurance in 1931 to reduce the budget, which led to his ouster from the Labour party and the formation of a new "National" Government under his leadership. In short order, however, MacDonald lost faith in orthodoxy and abandoned both budget-cutting and the gold standard. When it came to industrial policy, MacDonald had advocated nationalizations as Labour Party leader in the 1920s, yet as early as 1930 the Government had adopted novel industrial policies that would engage the state in the restructuring of industries and the destruction of small firms, but would not lead toward the nationalization of firms. The subsequent National and Conservative governments continued to pursue these policies, despite the fact that they were not in accord with the traditional platform of any of the parties.

In Britain, as in the United States, economic fluctuations were taken as evidence for or against policies that were in force, thus Britain's devaluation of the pound in 1931 was widely credited with the economy's revival after 1932. One result of her early recovery was that Britain did not cast about for other recovery strategies, and thus did not embrace the deliberate deficit spending that was being espoused by

Keynes and others, including Roosevelt after the American economy faltered again later in the decade. Moreover, while some British analysts continued to blame the downward spiral that began in the 1920s on an antiquated industrial culture, the fact that "rationalisation" had not been effected before the recovery began meant that the British dissociated the two things and by late in the decade they had abandoned the idea of state-led industry restructuration.

### *Industry "rationalisation"*

By the late 1920s, a decade of economic stagnation had convinced many politicians that Britain had outgrown conventional economic wisdom. In 1928, the Liberal Party rejected the idea that masses of small firms were the mainstay of prosperity: "In some modern conditions a tendency towards monopoly ... [is] inevitable and even, quite often, ... desirable." In 1929 the Parliamentary Committee on Industry and Trade suggested that the traditional notion that markets interfered with growth by decimating small firms was wrongheaded, and proposed instead that markets served to rationalize the economy as a whole. That group called for the state to turn from protecting firms against markets to reinforcing markets actively or replicating their effects. Here were the seeds of the "rationalisation" movement, which championed state-guided efforts to install new technologies; restructure firms through regroupings to achieve economies of scale; and close small, inefficient firms.<sup>48</sup>

The onset of the depression catalyzed action on those new proposals. "Rationalisation" was widely heralded as the remedy for the economic downturn, and the three governments that held office during the depression years passed legislation applying this new policy paradigm to diverse industries. The rhetoric of rationalization was that Britain had an overabundance of small inefficient firms, which had been fostered by earlier policies, and that only the complete restructuration of the economy would revive growth. Governments of the thirties asserted that "by means of 'rationalisation' (the elimination of surplus capacity and concentration of production into fewer larger firms), they could achieve economies of scale and greater efficiency."<sup>49</sup> Proponents recognized that they were advocating policies contrary to British traditions, and they insisted that past policies had been misguided and that new strategies must be designed to counteract their effects; "rationalisation" must create large, efficient firms to redress previous state supports for



firms too small to realize economies of scale and too capital-starved to implement modern technologies. This completely reversed Britain's belief in the efficacy of entrepreneurial competition among scores of small firms.

Rationalization also demanded a substantial extension of state intervention in industry. When Ramsay MacDonald called for the restructuring of the coal industry under state auspices in mid-1929, he argued, "The general conception underlying the coal policy of our predecessors," which consisted of traditional cartel schemes and subsidies, had "failed to produce the economic results which they expected. ... The industry has not been encouraged to organise itself efficiently."

MacDonald chastised previous policymakers for being weak-willed and insisted that the state must take more dramatic measures to force industry reorganization: "Changes must certainly be considered ... that will not be merely temporary and patchwork, but which, we hope, will put the industry on an up-to-date and efficient footing."<sup>50</sup> MacDonald succeeded in passing bills designed to restructure a number of industries in large measure because the rationalization movement had broad support from leaders of the three major parties. In addition to Labour's MacDonald, the Liberal Industrial Enquiry's *Britain's Industrial Future* (1928) and Lloyd George's subsequent *We can Conquer Unemployment* supported this sort of industry modernization, as did Conservative Harold MacMillan's *Reconstruction: A Plea for National Unity* (1933). Diverse political groups advocated rationalization because they saw it as an instrumental solution to the non-ideological problem of economic growth. As in the United States, various political groups had subscribed to a common industrial policy paradigm before the downturn, and they collectively rejected that paradigm when the economic collapse apparently falsified it. And as in the United States, while these parties shared a broad understanding of how to effect recovery, they had predictable differences over how to work out the details. The Conservatives generally favored weak state controls over industry and generous incentives for participation, while Labour leaders generally favored stronger government controls and smaller incentives.

Thus British politicians and industry leaders devised plans to restructure industry in order to counteract the effects of earlier state supports for entrepreneurial firms. Britain's traditional notion of competition, in which small creative firms compete to produce better products and increase efficiency, was abandoned. In its stead was the notion that

large monopolistic firms could achieve the economies of scale needed to compete in the modern international economy. As one analyst puts it: "In the 1930s there was an almost complete reversal of the nineteenth-century attitude towards industrial competition."<sup>51</sup> By competition the British had meant individual efforts to excel: the Americans had meant survival-of-the-fittest. New policies were designed to bring Britain closer to the American ideal. Not only did Parliament abandon the idea of protecting weak firms; they pursued policies designed to kill them off.

Rationalization schemes varied by industry, although all were designed to induce mergers, combinations, and plant closures that would bring economies of scale, and most also aimed to encourage the adoption of new technologies. Most schemes were combined with temporary protectionist and price-fixing measures that would prevent firms from expiring before they could be reorganized, and would encourage voluntary participation. Rationalization schemes fell into three categories in terms of Whitehall's role. For some industries the state merely approved privately hatched schemes; for others government engaged in a partnership with private industry to design and effect restructuration; and for others the state took the lead in devising and implementing schemes to reorganize industry. Below, several examples illustrate these approaches. Institutional arguments do not help to explain the rise of this novel strategy, but they do help to explain the form new policies took. Because it had no administrative structure designed to carry out economy-wide policies, Whitehall adopted policies on an industry-by-industry basis. Because it had no enforcement capacity in the industrial realm, Parliament generally made no provision for executing rationalization.

In 1930 Parliament gave their stamp of approval to a private plan to restructure shipbuilding by closing obsolete shipyards so that modern yards could expand to achieve economies of scale. Drafted under pressure from the Bankers' Industrial Development Corporation (BIDC), which promoted similar rationalization schemes in other staples industries, the plan called for participating firms to contribute 1 percent of the value of the vessels they produced to the National Shipbuilders' Security Ltd. (NSS), which purchased and decommissioned obsolete shipbuilding yards. Nine-tenths of Britain's shipbuilders participated in the plan, and in four years' time the NSS closed 137 yards, representing 25 percent of industry capacity.<sup>52</sup>

In the textile industry, the Government at first gave the nod to a private plan for reorganization, but when that plan proved ineffective the state took the lead in devising a strategy that called for public intervention. Whitehall had recognized as early as 1930 that the cotton textile industry was encumbered by outmoded production facilities and over-capacity. Analysts had pointed out a decade earlier that protectionism and cartelization had removed the incentive for British textile producers to modernize their plants; American manufacturers were well ahead of their British counterparts when it came to automation. Private sector efforts to achieve concentration received the Government's blessing when the Bank of England backed a BIRC restructuring effort. The slow progress of the BIRC led to unsuccessful proposals to use state powers to dismantle inefficient plants in 1931 and 1934 and finally to a successful bill in March of 1936, passed by the Baldwin Government. The bill established a "Spindles Board," under the Board of Trade, that taxed operating spindles and used the revenues to purchase and dismantle redundant cotton mills. Within two years they had idled five million spindles by closing scores of firms.<sup>53</sup>

In produce wholesaling the state and private industry jointly devised a plan. The Agricultural Marketing Act of 1931 sought to rationalize produce wholesaling by effecting distributional economies of scale. The Act called for producers to elect boards that would coordinate marketing to save transport costs, match output to demand, and encourage farmers to produce goods for undersupplied markets. Boards were established to distribute hops, pigs, potatoes, and milk, and in 1933 Parliament tried to encourage other producers to establish boards by allowing the government to place import restrictions on any commodity for which a marketing scheme had been adopted.<sup>54</sup> The goal of the plan was to eliminate small-scale agricultural wholesalers, who were considered to be inefficient in part because they could not quickly transfer produce in response to shifting market demands.

In a number of other industries public leadership was more significant. The 1930 Coal Mines Act established a Coal Mines Reorganization Commission to help arrange amalgamations, giving the Commission the authority to coerce mergers among recalcitrant firms that needed restructuring. The underlying logic was that the new Room and Pillar and Longwall Retreating mining systems substantially increased efficiency, but most mines would have to be enlarged to accommodate the methods. As the Reid Committee's report insisted, "It is vital that these technical changes be carried through if the cost of production is to be

so reduced as to enable the coal industry to meet all the needs of the country." Small mines with depleted coal reserves that employed antiquated technologies should be closed down, and the industry should concentrate its efforts on achieving efficiency in larger mines with the new technologies. The Commission's mandate was to work toward the creation of a single national coal monopoly.<sup>55</sup>

In 1930, iron and steel industry observers argued that Britain's outdated plants needed to be regrouped to achieve economies of scale and refitted with modern technologies. *The Times* wrote, "The whole steel industry in this country needs replanning and laying out afresh" with new blast furnaces, coke ovens, steel furnaces, and rolling mills in plants with greatly expanded capacities. In 1931, H. S. Jevons presented a reorganization plan to the British Association, which suggested that re-equipping plants was only a start, "The only permanent solution, however, seems to be the replanning and gradual rebuilding of the whole of the heavy steel industry on a national scale, with plants larger than any yet built in Europe." In 1932 Parliament established the May Committee to explore remedies to the industry's decline, and with the backing of the Import Duties Advisory Committee they recommended a 33 percent tariff on imported metals goods with the proviso that voluntary industry reorganization must follow. To achieve restructuring the Committee proposed an industry-led national organization linked to the state with powers to compel firms to merge and close plants, and in 1934 Parliament passed a bill charging the new British Iron and Steel Federation with planning mergers and plant closings that would increase the scale of plants and facilitate the modernization of equipment. However, the industry opposed giving the state and Federation power of compulsion, thus the bill made compliance voluntary.<sup>56</sup>

In 1933 Parliament established a Special Committee on Tramp Shipping to recommend a solution to the loss of business to foreign competition. The 1935 British Shipping Act sought to restructure tramp shipping by effecting industry concentration and replacing outdated vessels with new efficient ships. The Act established a scrap-and-build scheme with a ten-million-pound fund to compensate shippers for modernizing ships or building new vessels, provided that they decommission and scrap double the capacity of the new fleet. The Government also provided a direct short-term subsidy of two million pounds, threatening to rescind those funds if the industry did not reorganize and consolidate on its own initiative.<sup>57</sup>

Whitehall sponsored similar rationalization schemes for a host of other industries, ranging from wool textiles to flour milling. The new Central Electricity Board helped to arrange the consolidation of electricity producers during the 1930s. The beet sugar industry was offered subsidies in 1934 on the condition that it consolidate.<sup>58</sup> Although the details varied, all of these schemes were founded on Britain's new industrial rhetoric of state-led rationalization via combinations to achieve economies of scale, the adoption of new technologies, and the elimination of small inefficient firms. This represented a complete reversal of the traditional strategy of shielding firm autonomy. Two pieces of evidence suggest that these policies were not simply the pet projects of newly-empowered political groups. First, none of Britain's three major parties had supported this kind of policy before the late 1920s. Second, three successive governments passed and promulgated rationalization legislation – the new policy paradigm was non-partisan.

### *The demise of rationalization*

The rationalization movement was widely considered a failure by the end of the 1930s because nearly all of the industry-level schemes had failed to effect restructuration. This outcome can be traced to weak state capacities, a lack of parliamentary will to enforce restructuration that may be linked to British political culture, and interest-group resistance on the part of industry.

The British state had always used weak enforcement mechanisms to carry out industrial policies, and had pursued policies of small scope to avoid infringing on firms' liberties. In general the enforcement of laws affecting firms was left up to private litigation; to enforce the law Britain had the benefit of neither a powerful, professionalized bureaucracy, as in France, nor active public prosecutors, as in the United States. British ministries had a history of weak controls over industries. Even during the Great War Churchill had worked on the principles of "business as usual," thus wartime policies did little to enlarge the scope of public power over industry; "The doctrine implicitly acted upon was that the higher the price and the greater the freedom allowed the private contractor the greater would be the increase in the supply."<sup>59</sup> In the early 1930s no public office had the authority to dictate to firms, and no precedent had been set for public controls during emergencies. The rationalization legislation of the depression years did nothing to expand state controls, and as a result Parliament generally

left it up to individual industries to design and carry out their own recovery schemes. Legislators and observers recognized the problem, as when A. F. Lucas argued; "the lamentable history of the attempt to reorganize the iron and steel industry on its present basis, in return for protection, seems to indicate that a very wide measure of public control will be necessary if the badly needed work of rationalization is ever to make any real progress."<sup>60</sup> However, Parliament did not initiate the administrative reforms that would have facilitated this level of public control.

Moreover, persisting elements of British political culture, especially the reluctance to pass economy-wide policies that might tread on entrepreneurial liberties, led to a series of disarticulated industry-level policies that did not come under the auspices of a central coordinating body such as the NRA. Thus Harold MacMillan's proposed Industrial Reorganization Bill, which would have enabled any industry to devise its own scheme for reorganization, failed because the British could not stomach an economy-wide measure that might abridge economic freedoms. The plan was similar to the NIRA to the extent that it involved industry groups operating under state auspices, however, unlike the American plan, MacMillan's scheme called for groups to orchestrate the complete restructuring of industries. While the British state was certainly taking unprecedented interventions in these years as J. W. Grove argues, "Rationalization ... was supported by a large extension of government ... which would have been totally opposed twenty years earlier,"<sup>61</sup> depression-era governments were still reluctant to speak of "planning" the economy because the British still resisted the notion of state compulsion. Such public interventions as there were were weak; "the government remained reluctant to involve itself directly in rationalization schemes for industry, perhaps intimidated by the scale of intervention which would have been required." In 1940, Compton and Bott summarized the weaknesses of depression-era efforts to implement rationalization: "The State has interfered piecemeal, and as far as possible has left the details to the industry concerned or to independent persons, but has always refused direct responsibility itself."<sup>62</sup>

Finally, interest-group resistance to the schemes took several forms, and almost always proved fatal to rationalization. In some sectors capitalists prevented the expansion of state powers, as when metals firms undermined the May Committee's proposal to force mergers and firm closures. The British Iron and Steel Federation formed a successful

cartel, but metals firms refused to merge their operations voluntarily and the Federation "failed to achieve even a minimal amount of collaboration in reducing the industry's costs." Once rationalization schemes were in place, industries frequently refused to go along with restructuration. Mine owners resisted proposed mergers, and the Mining Association requested the dissolution of the commission charged with restructuring the industry in October 1931. Most agricultural producer groups ignored the Marketing Act, which encouraged the restructuring of the wholesale end of the business, and instead lobbied for various forms of protection. The tramp shipping scheme benefitted mostly foreign owners with decrepit British-docked vessels, which British shipbuilders bought and decommissioned to win subsidies; British owners held onto their vessels and awaited recovery. For most industries, the clauses permitting price-fixing and promising tariffs that were included in restructuration schemes, to gain industry support and to help firms survive for long enough to be restructured, worked against reorganization by taking the pressure off of industries. Interest-group opposition was least likely to appear for schemes that were privately initiated and that offered positive inducements, for instance those in cotton textiles and shipbuilding that offered failing firms attractive incentives to close down.<sup>63</sup> In brief, it was the absence of public powers of enforcement and of cultural support for state intervention that, in the face of industry resistance, undermined "rationalisation."

### The return of the firm-centric policy paradigm

By the late thirties the "rationalisation" movement was dead. The state stopped trying to restructure industries, and Britain found herself pursuing policies designed to guard the autonomy of the firm once again. The revival of tradition was evident before, during, and after the war. First, the industry rationalization schemes had been adopted in conjunction with interim measures to avert bankruptcies, which took the form of earlier firm-centric policies; state-sponsored cartels, tariff barriers, and industry subsidies. After rationalization schemes failed, what remained were these traditional supports for firms. For instance, the Coal Mines Reorganization Committee failed to create large efficient firms, but succeeded at creating a cartel. The British Iron and Steel Federation never convinced firms to reorganize, but they did fix prices in the industry and win tariff protection. The agricultural marketing boards did not increase industry efficiency, but they did fix prices, win

tariffs, and gain government subsidies for farmers. Second, during the preparations for war, and during the war itself, Parliament fostered cartel-like private industry groups to share out production, which ensured that all firms would prosper, and established a system whereby firms that had to suspend operations during the war would be allocated a share of industry profits as compensation. Here again, Parliament's concern was to support entrepreneurial firms. Third, during the post-war years Labour nationalized several segments of the nation's infrastructure in keeping with their ideological goals, but their policies for stimulating industrial growth followed the traditional prescription. Andrew Shonfield sums up Labour's post-war policies: "The striking thing in the British case is the extraordinary tenacity of older attitudes towards the role of public power. Anything which smacked of a restless or over-energetic state, with ideas of guiding the nation on the basis of a long view of its collective economic interest, was instinctively the object of suspicion."<sup>64</sup> In accord with Britain's firm-centric industrial culture subsequent governments tried to prop up firms in declining industries with subsidies, supports for cartels, and sometimes protectionism. The rhetoric of state-led rationalization had disappeared.

Rationalization lost support in large measure because it did not gain credit for Britain's recovery due to the fact that little progress had been made on restructuration before the economy began to turn around in 1933. By contrast the devaluation was just over a year old, which lent credence to arguments that macro-economic policy was the key to managing the economy.

The British case provides further support for the cultural argument outlined above. In Britain, as in the United States, the economy's vacillations during the 1930s convinced the nation of the futility of certain policy strategies and of the utility of others – contributing to the cultural construction of industrial rationality in the process. The downward economic spiral of the 1920s caused the British to question industrial traditions, and the full-fledged depression catalyzed action on new proposals for industrial rationalization. Britain's political leaders argued explicitly that the downturn had falsified the canons of Britain's traditional policy paradigm, and they brought to life a contradictory paradigm. The British also quickly rejected macro-economic wisdom by abandoning the gold standard. When the economy rebounded after 1932, before any of the industry rationalization schemes could be carried out but after devaluation was effected, the British focused blame for the crisis on macro-economic orthodoxy. While they



still pursued industry rationalization schemes in the mid-thirties, administrative weaknesses and political opposition ultimately thwarted those schemes. Rationalization did not meet a dramatic end, as the NIRA did in the U.S.; instead it petered out as the schemes failed in one industry after another. By the late thirties rationalization was largely forgotten, and the devaluation had been socially constructed as the cause of the recovery.

Two pieces of evidence help to refute interest group arguments. First, the industrial policy reversal Britain saw was not the outcome of a change in power, because the Labour Party had long favored nationalizations to bring large-scale enterprises under state control and had always been ideologically opposed to the creation of monopolistic private enterprises. Once in office they departed dramatically from that agenda. Second, all three major parties supported rationalization and industry modernization to revive the economy. Non-partisan support for these new policies came about because all parties shared a vision of the policy strategies that would bring growth. Before the downturn all three parties **had** believed in Britain's peculiar form of *laissez faire* – even if they were ideologically opposed to supports for capitalist firms – and during the thirties all three believed that strategy had been discredited.

Institutional arguments receive some support when we examine the failure of rationalization schemes. Contemporary analysts agreed that Britain was unable to carry out those schemes because the state had weak enforcement capacities. In addition, institutional arguments help to explain the failure of Harold MacMillan's bill to facilitate the rationalization of all industries in one fell swoop. Britain had no experience with such all-encompassing legislation, and as a result Parliament was reluctant to initiate such a bold experiment. However, institutional arguments do not account for Britain's rejection of her industrial policy paradigm during the 1930s, or for the consensus that briefly formed around a new paradigm.

### **French liberalism**

The American and British states responded to the Great Depression by making unprecedented industrial interventions, which has led some analysts to conclude that governments deal with crises by taking more active roles in their economies. However, in France, which had been

relatively interventionist to begin with, the opposite occurred; the French suspended concertation and practiced liberalism during the thirties. The French case provides compelling evidence that these countries did not merely expand public controls over their economies; rather they rejected traditional industrial policy paradigms and pursued contrary strategies to counteract the economic decline.

The role of the state in the French economy has been called Colbertist, after Louis XIV's chief of finance who expanded state economic leadership. France's industrial policies may be traced to the emergence of absolutism, which reinforced the central state organizationally and fiscally, established the technocracy that would carry out industrial interventions, and instilled the notion that social order must be imposed from on high. By early in the twentieth century, the logic of French absolutism – that feuding lords must be brought under the state's tutelage or the nation would disintegrate as a result of internal divisions or external conquest – had been extended to the industrial sphere.

From before the industrial revolution, France's public bureaucracy had the necessary resources to take charge of the nation's economic course, as well as a rationale for public action, drawn from absolutism, that posed state orchestration of civil society as the means to social order. Starting in the seventeenth century military engineers designed and built a transport system in which all roads, canals, and railways led to Paris, while other Western nations left infra-structural development to private initiative. Meanwhile, the state began to assume control or ownership of key industries when market mechanisms or entrepreneurial folly put them at risk, beginning with tobacco in 1674 and totaling over a dozen major industries by the time of the Great War; from shipbuilding to porcelain. In France, the legacy of absolutism was an industrial culture in which the state was the only rationalizing force that could direct the incoherent actions of self-interested citizens toward economic **growth**.<sup>65</sup>

The essential French view, which goes back to well before the Revolution of 1789, is that the effective conduct of a nation's economic life must depend on the concentration of power in the hands of a small number of exceptionally able people, exercising foresight and judgement. ... The long view and the wide experience, systematically analyzed by persons of authority, are the intellectual foundations of the system.<sup>66</sup>

Left to their own devices, citizens would pursue self-aggrandizement without heeding the needs of the nation. Left uncontrolled, market

mechanisms would destroy vital firms and industries. The central premise underlying French industrial culture was that a conductor, in the form of the state's far-sighted experts, must oversee industry to ensure growth.

The driving force behind France's industrial policy paradigm was a technically proficient cadre of state bureaucrats who designed and built key components of the industrial infrastructure: railways, canals, highways, bridges, tunnels, etc. Throughout the nineteenth century, state technocrats promoted new technologies, provided direct financing for industries, and organized construction during recessions to encourage growth. While the constitution of the Third Republic (1871–1940) diluted state powers in the name of democracy, it did not noticeably diminish the state's role in the economy. During the Great War the state ran a virtual command economy, and later Poincaré's "strong government" of 1926 carried out a series of industry takeovers and mixed enterprise experiments in sectors ranging from mining to air transport. Each of France's industrial interventions aimed to obviate the risks posed by imprudent private management and by market mechanisms. France's industrial policy paradigm revolved around the premise that public interventions carried out by expert bureaucrats could save vital industries from decline and could transform the disjoint actions of private firms into growth for the nation.<sup>67</sup> Yet during the 1930s, when governments throughout the developed world were making unprecedented industrial interventions to spur recovery, the French state sat idly by.

### *The depression: A challenge to concertation*

France was initially spared the effects of the international economic collapse, causing many to champion the expanded state interventions of the twenties and the traditional industrial culture. Modern analysts concur that the undervaluation of the franc in 1928 sustained exports at first.<sup>68</sup> Thus the economy did not decline markedly until 1931, and after a short rebound in 1932 the depression hit France hard and the economy continued to stagnate through 1935 while other nations were recovering.

Between 1932 and 1936 there were over a dozen regime changes; however, frequent regime shifts had become emblematic of the Third Republic long before the thirties, and they often involved no more than

a minor reshuffling of ministers and the premier. Two principal coalitions held power in those years; a center-left coalition before early 1934, and a center-right coalition in 1934 and 1935. After the rise of the center-right coalition in February of 1934 the French economy deteriorated rapidly, reaching its low point for the decade in 1935, and disillusionment with present policies resulted in the success of Leon Blum's Socialist coalition in early 1936.

The left-leaning, right-leaning, and Socialist coalitions that held power during the depression reversed France's tradition of intervention by abstaining from any industrial action to remedy the economic decline. When it came to industrial policy, the downturn brought a questioning of the statist tradition and calls for liberalism; regimes did not propose industrial policies to bring about recovery. When it came to fiscal and monetary policies French regimes proposed both the orthodox strategy of budgetary deflation and the neo-orthodox strategy of devaluation; however, the public opposed these measures, and the state's administrative weaknesses prevented a series of regimes from successfully implementing either. Thus interest group and institutional arguments help to explain the delay in adopting macro-economic policies during the mid-thirties, but not the absence of industrial policy.

Industrial liberalism in France outlasted Roosevelt's cartelization scheme, but it did not survive the thirties. As the economy continued to spiral downward, liberalism was socially constructed as ineffective and the French came to support more active public intervention. As a consequence, in 1936 Leon Blum was able to devalue the currency and negotiate fundamental changes in wage and hours policy, social insurance, and rules governing unions – changes that were at the core of his party's traditional platform.<sup>69</sup> The Socialists also pursued more active industrial interventions to speed preparations for war; however, they did not try to effect nationalizations, as political conflict theorists would predict. In fact, none of the depression-era leaders carried out the industrial policies they had advocated before the depression.

### *Industrial policy*

There is little disagreement about what the French government did to spur industrial recovery during the thirties. The state did virtually nothing to alter industrial policy until the crisis began to subside on its own in 1936. As Henry Ehrmann has argued, "Government was

summoned to interfere with economic activities even less than during prosperous times." But why did the government that has spawned the term *e'tatisme* do nothing to effect recovery while its neighbors were pursuing unprecedented interventions? There is some disagreement about that. One common interest-group explanation is that the depression coincided with the rise of labor power, and that governments were paralyzed by a standoff between the left and the right. This interpretation has led analysts of the era to focus on the ascendance of the left.<sup>70</sup> Close scrutiny reveals, however, that depression-era industrial policy had little to do with political conflict: there were no industrial interventions because regimes did not propose them, not because regimes could not get their proposals passed. Deflation and devaluation were different matters: regimes pursued both policies but their efforts were undermined politically. Why, then, did French regimes abstain from industrial intervention in this period in particular?

A second common explanation of state inaction is that France experienced an unprecedented loss of faith in the state's efficacy: "A prevailing crisis of confidence ... paralyzed the decision-making powers of businessmen and politicians and made them ... incapable of facing up to the depression."<sup>71</sup> There is compelling evidence that the French had lost confidence in the state's ability to direct the economy, but why did this happen? The historical record suggests that it happened because the economic collapse discredited France's statist industrial institutions; the state had been unable to avert economic disaster even with substantial forewarning from the international economy. The French now blamed *étatisme* for the crisis.

Many of France's converts to liberalism explicitly linked the crisis to the revival of Colbertism in the 1920s: "liberalism is confirmed by the opposite experience of the last few years," argued *Le Temps*, "if the economy is in chaos, it is because freedom has been reversed and excessive state intervention ... has thrown everything off course." Edmond Giscard d'Estaing argued before the Chamber, "For us the crisis stems not from an insufficiency of economic voluntarism and reason, but on the contrary, from excessive artificial intervention in the organization of the economy."<sup>72</sup> Voices from across the political spectrum charged that excessive state controls had brought on the crisis, and that what France needed was liberalism. It is particularly striking that until 1934 no regime, and no political party, called for aggressive industrial policies that would speed recovery. As in the United States and Britain, the downturn caused the French to conclude that their

traditional industrial policy paradigm had been disproved, and led them to back a contrary approach. The French now believed that freely operating market mechanisms could have prevented the onset of the depression. They laid blame on various public policies that interfered with markets: "protectionism, consumer cooperatives, marketing boards, and government purchases of surplus wheat and metals" were among the interventions that had prevented production from contracting when demand declined. It was the resulting oversupply that had caused the crisis, in their minds."

Before the 1930s, French interest groups had not been divided on the issue of the role of the state in the same way that American and British interest groups had been, with the left favoring state expansion and the right opposing it. In France the right sprang from a monarchist tradition and the far-right had embraced fascism, thus they favored a strong state that would take charge of the nation's future, while the left had favored socialization of the economy. Those in the center of the political spectrum associated liberalism with democracy and hence were most likely to favor liberalism, but even centrists had backed industrial and economic policies that were quite interventionist by international standards. The sort of industrial liberalism favored by all kinds of parties early in the depression had not been central to the political program of any major party prior to that time. In short, standard interest group arguments do not explain the switch to liberalism. Rather, France's failure of confidence in the state's role as conductor of the economy caused depression-era regimes to eschew interventionism and practice liberalism, and to do so with a rhetoric of practical economics. "French governments were not merely ineffective but complacent in dealing with the problems of the depression" because they had lost the conviction that the state could right the economy.<sup>74</sup>

The result was that between 1932 and 1936 successive regimes practiced *laissez faire*; only one industrial policy proposal was put forward and it merely aimed to reinforce private sector activities. The new advocates of liberalism had wanted the private sector to take the reins of the economy, and the employers' federation cooperated by leading a massive private campaign to cartelize industry in the early thirties that resulted in the formation of over a thousand cartels, modelled on the wartime *ententes* that had long since disappeared.<sup>75</sup> No industry sector escaped the private cartelization movement. However, the cartel agreements were not legally enforceable, and Pierre-Étienne Flandin's regime introduced a bill that would enable the state to enforce them.

The legislation would have revived the public supports for cartels that had been used during the war, but opponents insisted that the bill amounted to a reversal of newfound liberalism, and the bill never emerged from the Senate committee considering it. Successive regimes advocated allowing industry to repair itself.

In the context of the active industrial involvement of the state in the twenties, in nationalized sectors and mixed industries, and the indicative industrial planning that came to characterize post-war France, the liberal years of the thirties stand out as a striking anomaly.

### *The demise of the rhetoric of industrial liberalism*

After a brief upturn in 1933, the French economy declined in 1934 and 1935 while other Western economies where states were making unprecedented interventions had begun to rebound by 1932 or 1933. To many observers, France's adherence to liberalism seemed to have forestalled recovery, and support for liberalism started to wane. In 1934, calls began to emerge for renewed state controls. A growing number of political factions now charged that the constitution of the Third Republic had contributed to the crisis by emasculating the premier, and they argued that the industrial interventions of the twenties had not gone nearly far enough.

The turning point came in 1934 when right-wing veterans groups stormed the Palais Bourbon to demand greater powers for the central state. Calls for the end of liberalism were soon heard from all political corners: ranging from the leaders of the Radical Party, to the conservative premier **André Tardieu**, to the right-wing thinker **André Detoef**. For some converts to planning, the group X-Crise, composed of *École Polytechnique* graduates, provided the intellectual foundations for a turn toward industrial planning. During the "planomania" of 1934 at least ten groups wrote detailed plans for state intervention in the economy, including the unionists of the national C.G.T. on the left and the war veterans' organization (U.N.C.) on the right. *Planificateurs* of the thirties heralded a new era; in the words of Detoef, "Liberalism is dead, it was killed not by human design or by willful governments, but through an irresistible internal evolution."<sup>76</sup> These groups now held that the crisis had been exacerbated by the Third Republic's constitutional limitations on executive power, rather than by the renewed public interventions of the 1920s.

What was striking about the initial shift toward liberalism in France was that it did not occur along ideological lines. The "official view" – that excessive state interference with markets was the source of the crisis – had won the support of groups ranging "across the right and center of the political spectrum to the moderate left, ending unevenly toward the left side of the Radical Party."<sup>77</sup> Likewise what was striking about this return to support for statism was that it did not occur along ideological lines; all kinds of groups called for greater state controls. Moreover, these groups called, in essence, for the extension of traditional forms of state **intervention** through the creation of centrally controlled monopolies in heavy industries and cartels for industries composed of small firms.<sup>78</sup> These new industrial policy proposals resembled each other much more than they resembled contemporary American proposals for industry-wide cartelization or contemporary British proposals for state-led industrial restructuring because French factions were reviving and reinforcing France's traditional policy paradigm. The fact that different political factions rejected industrial traditions, and then different factions embraced industrial traditions after liberalism had been given a chance and had apparently failed, suggests that the French responded to the crisis in an instrumental manner – at the level of their shared industrial policy paradigm rather than at the level of their different interest-group ideologies.

### *Macro-economic policy*

The French state also abstained from macro-economic policy changes, however a comparison with industrial policy shows that political and institutional arguments better explain the outcome in that realm. French regimes virtually never tried to pass new industrial legislation because the downturn had falsified their traditional interventionist industrial culture. They did try to effect both orthodox economic policies (deflation) and neo-orthodox policies (devaluation); however, the state's weak administrative structure enabled public servants and public pensioners to thwart budget cuts politically and enabled groups with liquid assets to thwart devaluation in order to protect their savings. The Third Republic's weak administrative capacities were critiqued by the Socialist premier Léon Blum before he came to power, and he tried with some success to reform them after becoming premier in 1936. First, the Constitution provided cabinets virtually no protection from parliamentary ouster; second, it afforded the plutocratic regents of the Bank of France the power to veto new policies by refusing to extend state



credit; and third, it gave the Minister of Finance the power to veto new policies by refusing to fund programs he deemed fiscally unsound. The broad loss of public confidence in state efficacy led the legislature, Finance Ministry, and Bank of France to use these means to undermine new policy programs during the 1930s. Léon Blum later vented his frustration with the constitution of 1875: "I incline for my part toward systems of the American or Swiss type founded on a separation and balance of powers ... which assure the executive power in its proper sphere of action and independent and continuing authority."<sup>79</sup>

Thus political opposition to macro-economic policy shifts coupled with weak administrative capacities prevented a series of regimes from carrying out their macro-economic proposals, and led to the downfall of a number of premiers. Radical premier Edouard Herriot was forced to resign when the Council of Regents of the Bank of France refused to extend the state credit after he failed in 1932 to reach a compromise between the Chamber, which wanted to suspend U.S. war debt payments, and the Americans who opposed the idea. Despite the fact that every other Western nation pursued budgetary deflation at the first sign of collapse, Joseph Paul-Boncour's cabinet of late 1932 lasted six short weeks before the Chamber brought down his regime in a vote against deflation. Edouard Daladier held power for much of 1933 by proposing no new policies in the hope that the economy would reverse itself, but when he exhumed a proposal for deflation in the fall and challenged the Chamber to have the backbone to support the policy in the face of public opposition they ousted him.<sup>80</sup>

Conservative Gaston Doumergue's coalition Government of February 1934 announced deflationary budget reductions immediately and in October requested increased executive control of the budget, so that he could reduce expenditures and raise new revenues. Doumergue's deflationary measures had been unpopular and unsuccessful and now Leon Blum (who would request similar powers when he gained office) argued in *Le Populaire*: "It is a legalized coup *d'Etat* that M. Doumergue prepares. ... The Government would cease to be a parliamentary government. The state would cease to be a republic."<sup>81</sup> In early November the Chamber overthrew Doumergue in a vote against expanding his authority.

Like Daladier, Pierre-Étienne Flandin had survived in office by proposing no new policies and hoping for a foreign-led revival. Despite this caution, Flandin's regime was eventually immobilized by the

Finance Ministry and the Bank of France. When Flandin asked for the power to raise the debt ceiling without the consent of those bodies, so the government could continue to operate, Deputy Paul Reynaud charged that Flandin's ineptitude had sustained the crisis; "this is the first time a Government found in a situation created by its own incompetence an argument for demanding broader powers." Flandin submitted his resignation 30 May 1935, and his successor, Georges Bouisson, was defeated on the day he was to take office for requesting the same fiscal powers Flandin had sought. Pierre Laval's new coalition Government of 7 June 1935 renewed the strategy of deflation by reducing public expenditures by 10 percent and authorizing cuts in rents, fixed-interest payments, and utility charges. In the fall, with no change in the economy, Reynaud called for devaluation of the franc, arguing that deflation had failed and that the Chamber must escape its current paralysis and assume leadership of the economy even if the public opposed any sort of state action: "I do not believe that a solution formulated by the chants of the masses: 'neither deflation nor devaluation'... will suffice to resolve the crisis." Inaction persisted and as public discontent grew the Radicals, who were being courted by a new Socialist-Communist coalition, finally deserted Laval in January.<sup>82</sup>

Leon Blum was finally able to devalue the franc in the fall of 1936, but only after every significant political group in the country had come to the conclusion that no other course was possible.<sup>83</sup> In summary, political opposition to deflation and devaluation, in the context of constitutional checks on executive power, prevented successive French regimes from pursuing either policy successfully despite the fact that such opposition had not thwarted any other developed nation in such a way. It was the absence of protections against parliamentary ouster that stymied efforts to change economic policy. This experience contrasts sharply with what happened in the industrial realm, where regimes virtually never advocated new policies. It also contrasts with the experiences of the United States and Britain, where governments had little difficulty effecting macro-economic policy shifts.

Finally, the question of why France did not embrace Keynesianism during the downturn – particularly deficit spending, which France had used during the nineteenth century – is beyond the scope of this article, however Pierre Rosanvallon offers an intriguing hypothesis: Keynes's ideas were too close to French traditions to arouse much enthusiasm among policymakers.<sup>84</sup> Counter-cyclical spending provided a remedy that was plausible to Americans, because it overturned tradition, but for the French it was too familiar to inspire confidence.

### *The gradual return of statism*

By 1936 there were few supporters of liberalism left; it was impossible to claim success for the new industrial strategy because the economy had continued to decline under it. Leon Blum's Socialist coalition was thus afforded more leeway in installing new social, macro-economic, and industrial policies.

Blum's first major policy shifts came in the wake of his election, and as the result of a massive national strike. Soon after coming to office Blum negotiated the Matignon accord between business and labor, which realized some of the Socialists' long-held goals: the expansion of trade union prerogatives, a national pension, wage increases, a shorter work week, and paid vacations.<sup>85</sup> Political conflict perspectives clearly explain these new social and labor policies, because Blum's electoral mandate was translated into some of the Socialist Party's central goals.

Within months of entering office Blum had retreated on his campaign promise not to attempt either budgetary deflation or currency devaluation. He was able to pursue both policies because the continuing decline led the major interest groups to the conclusion that these changes were inevitable and perhaps even desirable.

In the late thirties Blum, and his successors Camille Chautemps and Edouard Daladier, adopted several new industrial policies in preparation for war. They passed legislation empowering the state to nationalize armaments industries, and carried out a number of such nationalizations. They nationalized the railways, which were on the brink of bankruptcy, to ensure the transport of troops and materiel. Under the threat of immanent attack, Daladier instituted a massive state-led rearmament plan and installed productivity incentives for industry. Industrial policy was back on course in France. Although France's military defeat interrupted normal politics during the forties, it is clear that France had revived her Colbertist industrial policy paradigm at the end of the depression, and after the war a series of nationalizations and the advent of indicative planning made France the benchmark of modern industrial statism.

After gaining office Léon Blum had acted to remove the constraints on executive power that had crippled his predecessors, and this contributed to the return of statism by redressing administrative weaknesses. He replaced the plutocratic Council of Regents of the Bank of France with

a state-nominated council composed mostly of civil servants who would not veto government policies. His new loi-cadre called for the Chamber to outline only the framework of new legislation, giving administrators greater discretion in executing laws. Blum reformed the Finance Ministry to eliminate the Minister's veto power over fiscal policies and established a secretariat charged with coordinating policy to reduce inter-ministerial conflict. Those changes aimed to remedy the executive weaknesses that had plagued Blum's predecessors by reducing the capacities of parliament, cabinet ministers, and the Bank of France to obstruct new initiatives.<sup>86</sup>

In France, as in the United States and Britain, the economic collapse called insitutionalized notions of industrial rationality into question and led to a rethinking of the industrial policy paradigm. The French took the economic ups and downs of the 1930s as evidence of the efficacy of their subsequent policy strategies, and adjusted policies accordingly. When France was initially spared, politicians championed the "strong government" of recent years. When the depression hit in 1931 despite significant forewarning, groups from across the political spectrum blamed excessive statism and championed liberalism. By 1935 there was no question that the economy had deteriorated under liberalism, and support for industrial statism reappeared.

The French case highlights my central argument by demonstrating that governments did not merely expand intervention in response to the Great Depression; instead they did the opposite of what they had done before the downturn began. Comparisons with French macro-economic policy are illustrative of the roles of interest group, institutional, and cultural processes. Although French regimes made few policy changes in either industrial or macro-economic policy, in the former case it was due to a newfound belief in liberalism brought about by the **disconfirmation** of the tenets of the nation's industrial policy paradigm; whereas in the latter case it had more to do with the fact that administrative weaknesses coupled with political opposition thwarted new policy proposals. On the other hand, the dramatic social and labor policy changes effected by the Blum regime were clearly the result of a shift in interest-group power.

## **Conclusion**

Recent work has neglected the role of culture in the development of

instrumental public policies. Here I have examined industrial policies adopted during the Great Depression to show how culture, in the form of the means-ends designations carried by industrial policy paradigms, influences policy decisions. By way of conclusion, I compare the depression-era experiences of the United States, Britain, and France to ascertain which aspects of policy are best explained by the interest-group and institutional approaches, and which aspects are best explained with reference to rationalized culture. Contrasts with social and macro-economic policy are illustrative.

Interest-group arguments clearly explain the rise of pro-labor and social welfare policies in the United States after the Democrats came to power, and in France after the Socialists came to power. In each of these cases, a regime change brought the left to power and enabled them to pass legislation that they had long supported, and that their opponents on the right continued to oppose. The interest-group approach also helps to explain the inability of French regimes to carry out budget-cutting and devaluation, because political opposition caused a series of regimes to be deposed for proposing those policies. However, the interest-group approach does not explain the support of pro-antitrust Democrats for the NRA's massive cartelization scheme; the support of the pro-nationalization Labour Party for industry "rationalization" to create private monopolies; or the support of the left-leaning and centrist French regimes of the mid-thirties for liberalism. In each of these cases parties backed policies that were contrary to their previously stated aims. Interest-group arguments are frequently compelling, I would contend, because their authors select cases on the independent variable, studying only policy choices that have involved substantial conflict such as the labor provisions of the New Deal or the union and social policies of Blum's Socialist coalition. Yet many policy choices are made without fundamental disagreement about core strategies – with only haggling over details – and that is frequently because interest groups within any nation share a basic cultural understanding about causal processes.

Institutional arguments that focus on state administrative capacities help to explain the failure of various depression-era policies. It is clear that the NRA failed to effect industry coordination in many sectors because it lacked the clout to force firms to cooperate with cartels. British rationalization schemes were likewise undermined by weak state capacities; the inability of the bureaucracy to force firms to close inefficient plants and merge with their competitors made it impossible

for Whitehall to restructure industry in accord with the new rhetoric of industrial rationalization. Institutional arguments also help to explain the failure of French regimes to effect changes in macro-economic policy, because, as Leon Blum argued, the constitution's weak protections for the premier made it possible, indeed easy, for any one of three different arms of government to bring down regimes whose policies they opposed. In France, the constitutional weaknesses of the office of premier helped to translate interest-group conflict into policy paralysis. However, institutional arguments do not help to explain the industrial-policy choices these countries made during the depression, in large measure because institutionalists posit that policymakers tend to pursue well-worn paths when choosing new policies yet all three countries chose completely new policy routes.

A cultural approach to public policy can better explain the industrial policy changes of the depression years than either the interest group or the institutional approach. In any society, there are certain shared understandings about fundamental causal processes that transcend interest group boundaries. In all settings cultural meaning is highly institutionalized, and in modern settings it is organized according to principles of instrumental rationality; it consists of demystified means-ends designations. Industrial cultures, and associated industrial policy paradigms, are a part of these shared meaning systems. A core characteristic of rationalized meaning in modern settings is that it is subject to falsification and revision, and I have argued that the sustained economic collapse of the thirties falsified the central tenets of each country's industrial policy paradigm. My empirical focus has been on the new, contradictory, industrial policy paradigms that arose rather than on the active process in which agents contributed to the social construction of the economic collapse. Future studies might pay attention to how agents actively interpret particular events to promote particular understandings of reality, and the extent to which their interpretations are constrained by policy paradigms. It is clear, for instance, that elements of industrial orthodoxy were rejected in each nation. But the actions of interested parties may account for which aspects were rejected.

We have seen that each country reversed the logic of its traditional industrial policy paradigm during the depression. The United States switched from market reinforcement to pro-cartel policies; Britain switched from supports for small firms to policies designed to create monopolies; and France switched from a tendency to exert state control over troubled enterprises to liberalism. In each country, policy-

makers explicitly argued that the traditional industrial strategy had brought on the crisis, and that an application of the opposite strategy could effect recovery. What was unique about the Great Depression was that due to its severity, policymakers came to believe that traditional growth policies were having the opposite of the intended effect, and this led them to try to reverse those policies. By contrast, most minor economic downturns cause policymakers to try to effect orthodox prescriptions for economic vitality.

Perhaps the most compelling evidence for this cultural perspective is this: in each country groups from across the political spectrum had believed in the efficacy of the traditional industrial policy paradigm, and in each country those same groups came to support a new contradictory policy during the thirties. In the United States, for instance, before the Great Depression, Republicans and Democrats alike believed in antitrust as a panacea for competitive growth. They had their differences over federal authority to intervene in private enterprise, but before the downturn neither backed cartelization as a means to effect growth. Then the sustained economic crisis created a crisis of confidence in America's policy paradigm, and Roosevelt won bipartisan support for his cartelization scheme. Similarly in Britain, all three parties had held a similar understanding of the role of public policy in economic growth before the thirties. Labour may have favored nationalizations, but they never claimed that nationalizations would foster growth – they concurred with the other parties that *laissez faire* produced prosperity. Before the decline, no party threatened the integrity of small firms. Then, when faced with the economic collapse, Labour, Liberal, and Conservative leaders supported the rationalization movement as a means to recovery. Once in power, Labour pursued rationalization to create strong monopolistic firms despite the fact that this was inconsistent with their goal of socializing the economy. In France, all kinds of political parties had backed relatively interventionist policies before the thirties, and during the crisis all kinds of parties came to blame excessive statism; **before** 1934 *virtually* no one proposed any remedy but liberalism. Then when liberalism conspicuously failed to bring recovery, political groups ranging from the Radicals to fascist factions called for the restoration of state industrial leadership. In France as in Britain, political parties that had advocated socialization of the economy before the depression now stood by their political opponents – in this case to support liberalism – because they saw recovery as a pragmatic problem in need of an instrumental solution, rather than an ideological issue.

Political groups continued to have ideological differences about industrial policy, but they tended to agree on the basic mechanisms of growth. In the United States, Democrats saw the New Deal as a way to achieve state coordination of industry and, by contrast, Republicans saw it as a way to achieve private industrial cartelization, but both groups briefly rejected market-reinforcing policies in favor of state-sponsored industrial cooperation. In Britain, Labour leaders favored restructuring schemes that depended on state coercion, while industry and Conservatives favored schemes that depended on positive inducements, but both groups rejected Britain's traditional supports for entrepreneurial firms in favor of industry restructuring. In France, the left wanted the state to abstain from industrial interventions altogether, while the right wanted the state to enforce private-sector cartelization schemes, but both sides rejected state planning of the economy. In each country, parties maintained their ideological differences, but exhibited similar understandings of what causes growth.

The fact that each nation came to believe in the virtue of whatever policy happened to be in effect when recovery began supports my argument that haphazard economic vacillations play an important role in determining which policy strategies become culturally constructed as efficacious. This also tends to undermine the *realist/utilitarian* view, which suggests that policy improves over time as rational policymakers learn more about universal economic laws from experience, because wildly inconsistent policies won favor in different contexts. In the United States, a new cartelization scheme was rapidly put into place, yet when the economy continued to deteriorate Americans quickly rejected it. New macro-economic policies, particularly the counter-cyclical spending of the Second New Deal, appeared, by contrast, to speed recovery and thus won plaudits. Britain's piecemeal industry rationalization schemes were carried out too late, when they worked at all, to get credit for the recovery, which began in early 1933, but the devaluation of late 1931 came at just the right time to get credit. In France liberalism was achieved, yet the continuing economic decline proved it ineffective in the minds of the French. The French never became disillusioned with deflation and devaluation because administrative weaknesses prevented regimes from carrying either out until the economy had begun to recover; thus by the late thirties the French were blaming macro-economic orthodoxy and industrial non-intervention for the continued crisis. In short, a constructionist view is supported by the fact that these countries linked economic vacillations to current policy measures. By the same token, the *realist/utilitarian* view is contradicted



by the fact that by the late 1930s Americans blamed the depression on inadequate financial regulation and fiscal orthodoxy, the British blamed monetary orthodoxy, and the French had come to blame industrial liberalism and macro-economic inaction. Yet realist approaches would seem to suggest that these countries should have learned the same, correct, lesson from the depression.

These events suggest that rationalized industrial cultures are responsive to evidence that supports, or falsifies, them. They also suggest that different realms of public policy may be more or less prone to falsification and revision. In the end, industrial traditions were fully exonerated in each country and came to shape post-war industrial policies in important ways: the United States went on to pass the Celler-Kefauver Act in the fifties to expand antitrust; Britain saw a series of protectionist measures and industry bail-outs to prop up individual firms; and France saw the advent of indicative industrial planning, which markedly expanded the role of the state in industry. Macro-economic orthodoxy, however, was altered quite fundamentally in the wake of the depression. The events of the thirties suggest that economic policy was more susceptible to change than industrial policy was for two reasons. First, due to the international nature of the crisis economists eventually searched for blame among shared policy strategies. It made sense to attribute the crisis to the fiscal and monetary orthodoxy that had prevailed among Western nations before the 1930s, but it did not make sense to attribute it to the idiosyncratic industrial policy of any one nation. Second, macro-economic strategy was much easier to change than industrial strategy was, because goals such as devaluation and counter-cyclical spending could be achieved entirely by state action, while goals such as cartelization and industry rationalization could only be achieved with the full cooperation of industry. Because macro-economic policy changes could be accomplished relatively easily, they were carried out before recovery began. Thus, in the United States and Britain at least, macro-economic policy changes would be linked with recovery in the mind of the public; failed or floundering industrial policy shifts would not be.

This helps to explain why industrial policies may be more intractable than other sorts of policies. Industrial policy paradigms have been rejected, to a greater or lesser extent, in a number of cases, but nations find that new strategies are difficult to implement and maintain. In Britain, for instance, the post-war economic malaise caused successive regimes to reject *laissez faire* and announce industrial planning

schemes modelled on the French experience, however planning schemes inevitably faltered when Whitehall tried to carry them out. In the United States, Japanese industrial organization has become the buzzword in industry as well as on Capitol Hill; however, efforts to replicate Japan's success (e.g., Sematech) have been difficult to carry out and Congress has all but given up on the idea of restructuring American industry on the Japanese model. These and other cases suggest that public policy shifts cannot easily dislodge entire industrial structures, hence governments tend to seek solutions to economic problems that can be effected simply – such as monetary manipulation.

More generally, policy revolutions that are generated by crises – as policy revolutions tend to be – may be unlikely to persist due to the conditions of their origins. On the one hand, the resources needed to effect new policies tend to be scarce during crises. On the other hand, poor economic performance is likely to be followed by more of the same; thus mid-crisis policy revolutions are frequently disconfirmed in the short run. Add to this the fact that nations are often eager to find evidence that exonerates traditional policy strategies. As one analyst argues about the failure of Keynesianism to take hold in Germany during the 1930s, "An ostentatious revolution in economic policy is likely to occur at moments when the constraints of the system in which it is applied are such that the chances of the revolution proving effective are small."<sup>87</sup> By contrast, the tried-and-true policy solutions nations generally adopt during periods of prosperity are much more likely to be reinforced by continued growth.

I have argued here for a cultural approach to understanding the rationalized public policy institutions of modern nation-states. I have suggested that shared cultural meaning, as is it institutionalized in public policies and state structures, influences the pragmatic solutions groups envision to such instrumental problems as economic growth. Moreover, rationalized meaning varies substantially over time and space, so that the means to economic growth envisioned by different nations are quite different, and the means envisioned by any single nation may change over time. Broadly speaking, while the interest-group approach to policymaking is frequently appropriate for understanding the selection of distributional policies that affect the allocation of national income, a cultural approach may be more appropriate for understanding the selection of instrumental policies that affect the production of national income.

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## Notes

1. John A. Garraty, "The New Deal, National Socialism, and the Great Depression," *American Historical Review* 78 (1973): 907–944; Arthur M. Schlesinger, Jr., *The Coming of the New Deal* (Boston: Houghton Mifflin, 1958).
2. Garraty, "The New Deal," 907; Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca: Cornell University Press, 1986), 211; Theda Skocpol, "Political Response to Capitalist Crisis: Neo-Marxist Theories of the State and the Case of the New Deal," *Politics and Society* 10 (1980): 155–202.
3. Thomas Ferguson, "From Normalcy to New Deal: Industrial Structure, Party Competition, and American Public Policy in the Great Depression," *International Organization* 38 (1984): 41–94; Gourevitch, *Politics in Hard Times*.
4. Garraty, "The New Deal;" Gourevitch, *Politics in Hard Times*.
5. For instance see Stephen D. Krasner, "Approaches to the State: Alternative Conceptions and Historical Dynamics," *Comparative Politics* 16 (1984): 223–234; David Vogel, *National Styles of Regulation: Environmental Policy in Great Britain and the United States* (Ithaca: Cornell University Press, 1986).
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7. Krasner, "Approaches to the State."
8. This is true of works as diverse as Gabriel A. Almond and Sidney Verba, *The Civic Culture: Political Attitudes and Democracy in Five Nations* (Princeton: Princeton University Press, 1963); Gary Becker, *The Economic Approach to Human Behavior* (Chicago: University of Chicago Press, 1976); and Jon Elster, *The Cement of Society* (Cambridge: Cambridge University Press, 1989).
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- Cultural Analysis* (Berkeley: University of California Press, 1987). Gary Hamilton and Nicole Biggart provide a broadly cultural argument about industrial policy in Asian countries, which pays attention to how traditional authority patterns are institutionalized in modern settings, see their "Market, Culture, and Authority: A Comparative Analysis of Management and Organization in the Far East," *American Journal of Sociology* 94 (1988): S52–S94.
11. See John W. Meyer and Brian Rowan, "Institutionalized Organizations," and Robert Wuthnow, *Meaning and Moral Order*.
  12. The analogy between policy revolutions during the 1930s and Thomas Kuhn's scientific revolutions has been made in Pierre Rosanvallon, "The Development of Keynesianism in France," in Peter A. Hall, editor, *The Political Power of Economic Ideas: Keynesianism Across Nations* (Princeton: Princeton University Press, 1989), 171–193.
  13. Peter Hall's seminal work on macro-economic policy suggests the term policy paradigm, which is "an overarching set of ideas that specify how ... problems ... are to be perceived, which goals might be attained through policy, and what sorts of techniques can be used to reach those goals. Ideas about each of these matters interlock to form something like a coherent whole that might be described as a policy paradigm. Like a gestalt, it structures the very way in which policy-makers see the world and their role within it." See his "The Movement From Keynesian to Monetarism: Institutional Analysis and British Economic Policy in the 1970s," in Svein Steinmo, Kathleen Thelen, and Frank Longstreth, editors, *Historical Institutionalism in Comparative Politics: State, Society, and Economy*, (New York: Cambridge University Press, forthcoming). Also see my *States and Industrial Cultures: Britain, France, and the United States in the Railway Age* (New York: Cambridge University Press, forthcoming).
  14. See Leon N. Lindberg, John L. Campbell, and J. Rogers Hollingsworth, "Economic Governance and the Analysis of Structural Change in the American Economy," in *Governance of the American Economy*, ed. John L. Campbell, J. Rogers Hollingsworth, and Leon N. Lindberg (New York: Cambridge University Press, 1991), 4.
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  22. Garraty, "The New Deal."
  23. Daniel Fusfeld, *The Economic Thought of Franklin D. Roosevelt and the Origins of the New Deal* (New York: Columbia University Press, 1956), 50–51.
  24. Franklin Delano Roosevelt, *The Public Papers and Addresses of Franklin Delano Roosevelt*, thirteen volumes, compiled by Samuel Irving Rosenman (New York: Random House, 1938–1950), V. 2, 298; V. 4, 341; V. 3, 372; V. 2, 298.
  25. Shonfield, *Modern Capitalism*, 309. Roosevelt, *The Public Papers*, V. 2, 14.
  26. Roosevelt, *The Public Papers*, V. 5, 568; Daniel Roper quoted in Holt, "The New Deal," 36; Roosevelt quoted in Schlesinger, *The Coming*, 182.
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  31. Albert U. Romasco, *The Poverty of Abundance: Hoover, the Nation, and the Depression* (New York: Oxford University Press, 1965); Gourevitch, *Politics in Hard Times*; Arthur M. Schlesinger, Jr. *The Crisis of the Old Order, 1919–1933* (Boston: Houghton Mifflin, 1957).
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  35. Hawley, *The New Deal*.
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  82. For Reynaud's speech see Bonnefous, *Histoire*, 336. Buisson's short career is discussed in Brower, *The New Jacobins*, 96. Laval's troubles are reviewed in Alfred Sauvy, "The Economic Crisis of the 1930, in France," *Journal of Contemporary History* 4 (1969): 25, and in Paul Reynaud, *Memoires I: Vues de Ma Montagne*, Vol. 1 (Paris: Presses Universitaires de France, 1960). Reynaud is quoted in *Journal Officiel de la Republique Française, Debats Parlementaires: Chambres des Deputies*, 15th Legislature (29 November 1935), 2247. See also Brower, *The New Jacobins*, 128.
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