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Power to the People: Nationally Embedded Development and Mass Armies in the Making of Democracy

Sandra Halperin

Much current thinking about democracy and how it can be promoted is based on myths about how democracy was achieved in the West. For example, the association of economic openness with democratisation – the focus of a vast literature and the rationale for most, if not all, major democracy promotion proposals and programme – is based, implicitly or explicitly, on the erroneous assumption that the emergence of democracy in the West was associated, in some way, with the development of more open economies. This article argues that, in fact, the achievement of Western democracy is associated, not with greater economic openness, but with a number of socio-economic changes, such as the wartime mobilisation of workers, that led to the emergence of a relatively more nationally ‘embedded’ capitalism, involving greater restrictions on capital and an increase in state regulatory and welfare functions.

Keywords: democracy, democratising, European, industrialisation, mobilisation

Introduction

Misconceptions about the factors that made possible the achievement of democracy in Europe continue to influence our view of the requisites for and prospects of democracy in the contemporary ‘developing’ world. For instance, the notion that a capitalist bourgeoisie played the decisive role in democratising Europe still informs a great deal of historical and theoretical writing,¹ despite increasing evidence that it was the working

1. Arguments in both the dependency and the liberal development literature maintain that, while in Europe the industrial bourgeoisie played an important role in challenging the political power of traditional elites and was a prime force in the achievement of both industrial development and democracy, in third world countries, the local bourgeoisie is crippled by the domination exerted by international capital and too weak and dependent to act as an effective agent of national industrial and democratic development. See for example, A. Portes,

classes that played the decisive role in this outcome;² and those scholars who do recognise the crucial role of the working class in European democracy, nonetheless tend to misunderstand why and how this occurred and, consequently, why workers have not played a similar role in contemporary 'developing' countries.

The achievement of democracy depends on increasing working-class political power and this, many argue, has been effectively foreclosed by policies that have fragmented national workforces. According to this argument, the post-World War II compromise was concluded with permanently employed full-time workers represented by national industrial unions. Today, globalisation has restructured the labour market in ways that erode the permanent, full-time employment that characterised the labour forces with which the compromise was concluded. By producing increased heterogeneity and inequality within labour markets, globalisation has eroded the economic conditions for labour solidarity. Moreover, as Erik Wright argues, firms are increasingly oriented towards global rather than nationally based markets and, thus, are no longer dependent on the purchasing power of workers in the countries within which those firms are located.³

Contrary to these claims, the struggle between labour and capital today is not being waged under fundamentally different conditions. First of all, labour did not become largely permanent and full time until after World War II and as a result of the compromise that it entered into with capital: thus permanent, full time labour was not a precondition but a *result* of the compromise. Second, while increased capital mobility and the subsequent downward pressure on wages may be pitting workers against each other worldwide today, historically, this appears to be 'normal'. Attempts to forge solidarity internationally among labour forces have not been, on the whole, successful. In the 19th and early 20th centuries,

'Latin American Class Structures: Their Composition and Change During the Last Decades', *Latin American Research Review* 20, no.3 (1985): 7–40; P. Evans, *Dependent Development* (Princeton: Princeton University Press, 1979); G. O'Donnell, *Modernization and Bureaucratic-Authoritarianism* (Berkeley: University of California Press, 1979); and A. Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, MA: Harvard University Press, 1962).

2. See for example, D. Rueschemeyer, E. Huber Stephens and J. D. Stephens, eds. *Capitalist Development and Democracy* (Chicago: University of Chicago Press, 1992); R. Collier, *Paths Towards Democracy* (Cambridge: Cambridge University Press, 1999); B. Downing, *The Military Revolution and Political Change in Early Modern Europe* (Princeton: Princeton University Press, 1997); J. A. Hall, Consolidation of Democracy in David Held, ed. *Prospects for Democracy* (Stanford: Stanford University Press, 1993), 271–90; R. Collier and D. Collier, *Shaping the Political Arena* (Princeton: Princeton University Press, 1991).

3. E. Wright, 'Workers Power, Capitalist Interest and Class Compromise', *American Journal of Sociology*, 105, no.4 (2000): 957–1002. See also, G. Teeple, *Globalization and the Decline of Social Reform* (New Jersey: Humanities Press, 1995).

British employers confronted with workers' demands to reduce hours and raise wages threatened to bring in workers from France, Belgium and Germany at a cheaper wage. Continental wages were substantially lower than in England, and English labour leaders feared competition of goods produced by low-wage industries, and threats by employers to replace striking English workers with Europeans.⁴ Nor did the conditions of labour before 1914 facilitate the development of strong unions and high solidarity within national workforces. As this article will argue, industrial development in Europe during the 19th and early 20th centuries was characterised by atomised labour forces with relatively low wages and low skills. It will argue, further, that labour became unified through its mobilisation, not for industry, but for war; and that this was decisive to the achievement of democracy.

'Democracy' is here defined as a political system in which there are found: (1) free and fair elections of representatives with universal and equal suffrage; and (2) the institutionalisation of opposition rights (freedom of association and expression, protection of individual rights against arbitrary state action). This definition borrows from Rueschemeyer et al. (1992: 43–4) who, however, include a third element in their definition: (3) responsiveness of the state apparatus to the elected Parliament. This element is dependent on the first two: where there are important electoral abuses, unelected or highly restricted upper houses with absolute veto power over all legislation, and the exclusion of working-class organisations and parties from the political process, the state's responsiveness to the legislature can hardly be considered a measure of popular representation. Since, as shall be argued, such abuses, restrictions and exclusions characterised European political systems until World War I and, in some places, beyond, this third element will be excluded from the discussion that follows. Inclusive participation in the political process, participation that transcends class boundaries, as Rueschemeyer and his co-authors rightly point out, though often treated as secondary to other dimensions, is the central feature of democracy.

While Europe's industrial bourgeoisie, like its landed elite, was 'generally supportive of the installation of constitutional and representative government', it was 'opposed to extending political inclusion to the lower classes'.⁵ This was only achieved when working-class mobilisation, not for industrialisation but for war, set in motion processes that simultaneously increased working-class political power relative to that of other classes, and increased pressures for a relatively more nationally 'embedded' economy – one characterised by the territorial coincidence of production and consumption and the expansion of domestic

4. H. Collins and C. Abramsky, *Karl Marx and the British Labour Movement* (New York: Macmillan, 1965), 39.

5. Rueschemeyer et al. *Capitalist Development and Democracy*, 8.

markets. It was these socio-economic changes that ensured that extensions of the franchise would combine with free and fair elections and the institutionalisation of opposition rights to produce durable, substantive democracy.

Until the world wars, it was the traditional land-owning elite that formed the basis of Britain's 'capitalist class', dominated the state apparatus and led Britain's capitalist development. Political institutions were designed to maintain the power of traditional forces against the lower classes; and in general, they were successful in achieving that end (see Section I of this article). It was the increase in working-class power due, not to its mobilisation for large-scale industrial production, as is usually assumed,⁶ but to the mass mobilisations for the world wars, that made possible the achievement of democracy in Europe. Before World War II, European industrialisation was sectorally and geographically limited, largely carried out by atomised, low-waged and low-skilled labour forces; based on production, not for local mass consumption, but for export to governments, elites and ruling groups in other states and territories, and characterised by restricted and weakly integrated domestic markets (Section II). It was not until the world wars created a unified and powerful labour force in Europe that stable, full democracy became part of the European political landscape. Section III discusses the circumstances that made possible the growth of labour power in Europe and, as a result, the achievement of democracy and a broadening of the social base of development. Section IV considers the implications of the analysis of previous sections for how we understand globally constituted relations of power, and their relationship to democratic struggles throughout the world today.

I. The Bourgeoisie and Political Development in 19th- and Early 20th-Century Europe

Many scholars claim that, in contrast to the third world, where the indigenous bourgeoisie failed to acquire either political or economic hegemony, in Britain 'an independent capitalist middle class' emerged by the 18th century sufficiently strong to fight and win a battle for state power against the merchant and financial monopolists which had originated in the feudal land aristocracy.⁷ But it was the aristocracy that formed the basis of Britain's 'capitalist class'; and, despite the granting of concessions to wealthy non-aristocratic industrialists after the 1848 revolutions,

6. See works cited in footnotes 1 and 2.

7. See for example, Daniel Chirot, *Social Change in the Twentieth Century* (New York: Harcourt, Brace Jovanovich, 1977); Barrington Moore, *Social Origins of Democracy and Dictatorship* (Boston: Beacon Press, 1966).

they remained the dominant faction of the bourgeoisie throughout the 19th and early 20th centuries.

*Europe's Liberal Bourgeoisie*⁸

Distinctions are conventionally drawn between class structures in different European societies and, particularly, between those that were supposedly dominated by an indigenous, independent capitalist bourgeoisie, and those that were not. This distinction is the basis of various schemas that define 'two roads' to industrial capitalism and democracy in Europe. One road, exemplified by Britain, is characterised by the emergence of a relatively open political space – the result of a bourgeois revolution having displaced the old landed aristocracy and the absolutist state; while the second road, exemplified by Germany and other 'late' developers, is distinguished by its relatively closed political space – the result of the continuing dominance of an agrarian class able to block industrialisation and resist democracy.⁹

But nowhere in Europe was there a clear division between industrial and landed capital; in fact, everywhere industrial capitalist development was characterised by their fusion. In Britain, as elsewhere, the nature of industrial capitalist development was shaped by the political convergence of a landed aristocracy and large capitalist manufacturers.

Many have argued that this elite had become bourgeoisified by the 18th or 19th century. However, either the aristocracy absorbed the industrial bourgeoisie and dominated it, or they resisted the industrial bourgeoisie and dominated it. Despite all that has been written about industrialists replacing landowners as the dominant element in the ruling elite, until 1914, non-industrial Britain could easily outvote industrial Britain.¹⁰ Before then, industrialists 'were not sufficiently organized to formulate broad policies or exert more than occasional influence over the direction of national affairs'.¹¹ Land in Britain, as elsewhere in Europe, was highly concentrated, as was its financial and industrial sectors, and these became increasingly so throughout the 19th century. Traditional corporatist structures – guilds, patronage and clientelist networks – survived in some places and grew stronger, and new ones were created. By 1914,

8. The discussion that follows often focuses, not on Europe, but only on Britain, as Britain represents the 'hardest case' for the arguments elaborated in this article.

9. See for example, D. Coates, *Models of Capitalism* (Cambridge: Polity, 2000); Kees van der Pijl, *Transnational Classes and International Relations* (London: Routledge, 1998); Moore, *Social Origins*.

10. E. Hobsbawm, *Industry and Empire* (London: Weidenfeld and Nicolson, 1968), 96.

11. R. W. D. Boyce, *British Capitalism at the Crossroads, 1919–1932* (Cambridge: Cambridge University Press, 1987), 8.

these formed part of the complex of privileged corporations and vested interests in Europe that were 'quite as formidable as those of the Old Regime'.¹²

These were not peripheral aspects of Britain's industrialisation. Nor were they attributable to the 'survival' of a dying 'feudal' substance, to pre-capitalist and ever-diminishing 'forces of resistance' to industrial expansion. They highlight the extent to which the traditional landowning elite were able to channel industrial expansion into dualistic and monopolistic forms. Dualism preserved the political and economic bases of traditional groups by restricting growth to within the constraints posed by the concentration of capital and land ownership.¹³ As a result, industrial expansion in Europe was shaped, not by a liberal, competitive ethos, as is emphasised in most accounts, but by feudal forms of organisation, monopolism, protectionism, cartelisation and corporatism, and by rural, pre-industrial and autocratic power structures.¹⁴

12. W. H. McNeill, *The Shape of European History* (London: Oxford University Press, 1974), 164–5.

13. 'Dualism' is used here in the sense that dependency theorists use the term: to describe a lack of integration of various parts of the domestic economy due to strong linkages between portions of the economy and foreign economies. The term is not meant to describe more or less natural or automatic processes of unbalanced growth between rural and urban, or between successful and less successful, sectors of the economy. Dependency theorists argue that this sort of 'dualism' is a result of the colonial and imperial policies of European powers who recast Third World economies in a specialised, export-producing mould, thus creating fundamental and interrelated structural distortions that continue to thwart development. See for example, Osvaldo Sunkel, 'From Inward-Looking Development to Development From Within', in O. Sunkel, ed. *Development From Within: Toward a Neostructuralist Approach for Latin America* (Boulder, CO: Lynne Rienner, 1993), 23–59. W. W. Murdoch, *The Poverty of Nations: The Political Economy of Hunger and Population* (Baltimore: Johns Hopkins University Press, 1980); F. H. Cardoso and E. Faletto, *Dependency and Development in Latin America* (Berkeley: University of California, 1979); G. Williams, 'Imperialism and Development', *World Development* 6 (1979) 925–36; S. Amin, *Unequal Exchange* (New York: Monthly Review, 1977).

While the discussion that follows adopts this term, it rejects the notion that 'dependent development' describes an idiosyncratic contemporary Third World development, and that it is an outcome largely of the domination of external powers. It assumes, instead, that 'dependent development' arises from class relations and processes of class formation that at different times have been common to both Europe and the contemporary Third World; and that in both contexts, the existence of dualism and other manifestations of dependency depend on local elites who actively and dynamically perpetuate and recreate them, with or without the help of foreign allies.

14. See, for an elaboration, Sandra Halperin, *In the Mirror of the Third World: Capitalist Development in Modern Europe* (Ithaca, NY: Cornell University Press, 1997); and Sandra Halperin *War and Social Change in Modern Europe: the Great Transformation Revisited* (Cambridge: Cambridge University Press, 2004). For

Democracy in Europe

It is often claimed that '[i]n the early part of the twentieth century' most Western European societies 'were either political democracies, or well on the way toward becoming so'.¹⁵ However, before 1945, Europe, in common with parts of the contemporary Third World, experienced partial democratisation and reversals of democratic rule. Political participation was severely limited; and where liberal electoral politics were introduced, governments had difficulty in maintaining them for sustained periods of time. Parliaments were dissolved, election results disregarded and constitutions and democratic civil liberties continually thwarted by extra-legal patronage systems, corruption and violence.

Democracy in Europe first arose as democracy for male members of the ruling class. As the urban, industrial bourgeoisie grew in wealth and numbers, it sought to wrest a share of political power from the *ancien régime*. When they showed themselves willing to ally with the lower classes in order to achieve this objective, the representatives of the landed elites granted them representation in Parliament. Once this was accomplished, industrialists and landed elites closed ranks to prevent further extensions of the franchise.

On occasion, landed elites favoured extensions of suffrage that would increase their weight relative to that of industrial interests. Thus, in Norway, suffrage was extended to the property-owning stratum of peasantry prior to its being achieved by the urban working class. Bismarck favoured an extension of suffrage to strengthen landed interests against financial interests, since the landed elite controlled the behaviour of their dependants and their workers at the polls.¹⁶ Similarly, in Belgium, the right-wing could secure the vote of the mass of peasant voters who were Catholics, and so had less to fear from universal male suffrage than the liberals.¹⁷ The liberal bourgeoisie, however, almost always resisted democracy.¹⁸ As Karl Polanyi noted, 'From Macauley to Mises, from Spencer to Sumner, there was not a militant liberal who did not express the conviction that popular democracy was a danger to capitalism'.¹⁹

a summary of the arguments concerning Britain see, in this latter text, the tables on pages 83 and 84.

15. Chirot, *Social Change*, 222.

16. J. Weiss, *Conservatism in Europe 1770–1945* (New York: Harcourt, Brace Jovanovich, 1977), 76.

17. A. Carstairs, *A Short History of Electoral Systems in Western Europe* (London: Allen & Unwin, 1980), 51.

18. Rueschemeyer et al. contend that Switzerland was an exception to this; and perhaps in France and Britain segments of this class also played a positive role (*Capitalist Development*, 98).

19. Karl Polanyi, *The Great Transformation* (New York: Farrar and Rinehart, 1944), 226.

European ‘democracy’ before 1945 was a severely limited form of representative government, based on a highly restricted, means-tested suffrage that excluded the great majority of adults from participation: men below the age of 25 or 35, and women. Given that the life expectancy in Europe before World War I was between 41 (Austria, Spain) and 55 (Sweden, Denmark, Norway) years of age, this meant that those who had the vote were men in the last third of their life; if the same system prevailed in the West today, the vote would be restricted to men over 54 years of age.

Table 1: Europe in 1910²⁰

	Life Expectancy	Voting Age
Belgium	47	25
Germany	47	25
Denmark	55	35
Norway	55	25

Universal adult suffrage would have enfranchised 40–50 percent of each country’s population. However, in 1910, only some 14–22 percent of the population was enfranchised in Britain, Sweden, Switzerland, Belgium, Denmark, the Netherlands and Germany. Even where suffrage included members of the poorer classes, three-class and other weighted and plural voting systems, as well as open balloting and restrictions on and biases against working-class organisations and parties, made it futile for poor people to vote.

Until 1918, Britain’s suffrage qualifications were so complicated that determining the number of qualified voters was difficult. Lodgers had to make an annual claim in order to stay on the register; and claims and objections were heard by barristers in the presence of party agents, a method that did not guarantee accuracy or completeness. ‘Though 88 percent of the adult male population would have qualified to vote in 1911 were it not for complications and limitations in the registration procedures which were biased against the working class, less than two-thirds were on the voting polls’. Moreover, 500,000 of the 8 million voters that year were plural voters ‘and needless to say not many of them were working-class’.²¹ The Representation of the People Act of 1918 nearly tripled the size of the electorate by simplifying the requirements for male voters and by extending suffrage to women aged 30 years and over who qualified as occupants. However, plural voting persisted. In 1931,

20. R. Goldstein, *Political Repression in Nineteenth Century Europe* (London: Croom Helm, 1983), 241.

21. Rueschemeyer et al., *Capitalist Development & Democracy*, 97.

the Labour Party received 9 percent of the seats in Parliament with 30 percent of the vote.²² It was not until 1948 that plural voting was abolished in Britain.

Throughout the century, weighted voting was designed to grossly under-represent urban areas. In Britain, scores of depopulated constituencies ('rotten boroughs') existed under the control of large landowners who were able to manipulate the votes of the inhabitants. Until 1914, the stagnant or declining small towns and rural areas of Prussia that supported conservatives were vastly over-represented in the Reichstag. In Denmark, the peasants were enfranchised in 1849, but until 1915 the votes of noble landowners and wealthy burghers were weighted to give them a majority of the seats in the upper chamber of Parliament.²³ Universal suffrage was introduced in Belgium in 1893, but extra votes were given on *capacitaire* criteria (literacy, formal education or appointment to public office) and to heads of families upon reaching 35 years of age.

In addition to weighted suffrage and plural voting, open balloting, usually by oral voting or by a show of hands, restricted suffrage by allowing governmental officials and local elites to use pressure and manipulation, especially in rural areas. Open balloting was used in Hungary and Prussia as late as 1914, in Denmark until 1901 and in Austria until 1906.²⁴

Many agricultural labourers were given the vote in Britain in 1884, but they remained dependent upon the goodwill and charity of landlords and farmers. Farm labourers seen at Labour meetings were subject to prosecution;²⁵ and the Conservative (Unionist) Party relied upon the aristocracy, clergy and the squires in rural areas to put pressure upon tenants and farm workers to support their candidates.²⁶ Until 1945, priests and large landed proprietors in France saw to it that working farmers and the peasantry voted 'appropriately'.²⁷ In Prussia, where there was no secret ballot, landowners were able to control the vote of the landless labourers who depended on them for incomes, homes and food. Squires led their peasants to the polls and watched them carefully. Owners of large estates withdrew their trade from merchants or artisans who voted for liberals. Government officials used official funds and licensing powers to reward

22. A. Carstairs, *A Short History of Electoral Systems in Western Europe* (London: George Allen & Unwin, 1980), 197.

23. Goldstein, *Political Repression in 19th Century Europe*, 18–19. Urban areas were generally *over*-represented in the legislatures in Austria, to ensure the political dominance of urbanised German elements, and in the Scandinavian countries, reflecting the influence of bureaucratic-mercantile interests.

24. See Goldstein, *Political Repression in 19th Century Europe*, 15–17.

25. See for example, *Labor Organizer*, March 1924, 9.

26. H. Gosnell, *Why Europe Votes* (Chicago: University of Chicago Press, 1930), 24–5.

27. Gosnell, *Why Europe Votes*, 55.

and punish the appropriate people.²⁸ Liberals or radicals were not allowed onto estates to canvass or pass around their ballot papers. Right up to 1914 'the only ballot paper an estate laborer was likely to see was the Conservative one, handed to him by his foreman outside the polling booth'.²⁹

Given these restrictions on suffrage the figures listed in Table 2 do not reflect the actual number of people who were permitted to vote under the systems existing at the time.

Table 2: Percent of European Population Enfranchised, 1910³⁰

Finland	45	Austria	21
Norway	33	Sweden	19
France	29	UK	18
Spain	24	Denmark	17
Bulgaria	23	Romania	16
Greece	23	Russia	15
Serbia	23	Netherlands	14
Germany	22	Portugal	12
Belgium	22	Italy	8
Switzerland	22	Hungary	6

On the eve of World War I, Norway was the only country in Europe with universal and equal suffrage. If we count only male suffrage, then France, too, can be counted. After the war, Denmark, Finland, the Netherlands and Sweden established full suffrage. Germany and Austria did too, but only briefly. By the eve of World War II, Britain can be added to the list, though instances of plural voting remained. Only after World War II did universal, equal, direct and secret suffrage become the norm throughout Western Europe.

Before World War I, parliamentary institutions in Europe functioned more like royal courts than the parliaments and other legislative bodies that exist today in the West. Hereditary transmission of socio-political status was still widespread.³¹ Political institutions were continually compromised and undermined by efforts to preserve privilege and to forestall the acquisition of power by subordinate groups and classes.³² Where

28. J. Weiss, *Conservatism in Europe 1770–1945* (New York: Harcourt, Brace Jovanovich, 1977), 76.

29. D. Lieven, *The Aristocracy in Europe, 1815–1914* (New York: Macmillan, 1992), 222.

30. Goldstein, *Political Repression in Nineteenth Century Europe*, 241.

31. Britain's House of Lords, a hereditary body monopolised by the great landowning families, had absolute veto power over legislation proposed by the House of Commons until 1911. D. Lieven, *The Aristocracy in Europe, 1815–1914*, 205.

32. In addition to the electoral abuses previously discussed, European governments suspended parliaments after World War I, outlawed opposition parties,

liberal electoral politics were introduced, governments had difficulty in maintaining them for sustained periods of time. Constitutions and democratic civil liberties were continually thwarted by extra-legal patronage systems, corruption and violence. In general, political institutions were designed to increase the power of traditional forces against the lower classes; and they were generally successful in achieving that end. Though Labour governments came to power in Scandinavia, Britain, France and Spain, a broad spectrum of public opinion in those countries and elsewhere still considered them essentially illegitimate. This was important in the manipulation of parliamentary politics by authoritarian movements in their rise to power during the interwar years in France, Spain, Austria, Hungary, Poland, Bulgaria, Romania and Portugal. During the interwar years, and throughout Europe, the chief political objective for most conservative parties or interest groups was the exclusion of the socialists from any decisive influence on the state. As Charles Maier observes:

If the socialist left seriously presented its own economic objectives on the national level, alarmed conservatives fought back. They resorted either to decentralized but simultaneous boycotts of government bonds and money (as in France), or to concerted political opposition to taxation within the terms of coalition politics (as in Germany), or to extra-legal coercion (as in Italy).³³

The first Labour government took office in Britain in 1923, but fell two years later as a result of its failure to prosecute an alleged communist editor charged with sedition. During the election campaign which followed, a 'red' scare aroused by the Foreign Office, played a decisive role in Labour's defeat. The Party made a comeback in 1929, but in 1931 a new government was formed by a coalition of liberals and conservatives after a campaign in which Labour leaders were denounced for being Bolshevik fellow travellers and a majority of voters were convinced that the Labour Party represented 'Bolshevism run mad'.³⁴ In 1936, a Popular Front government dominated by socialists was elected in France. Leon Blum, who headed the government, was denounced as an agent of Moscow after introducing labour reforms.³⁵ A boycott of government bonds and money by French capitalists forced Blum to resign in 1937. The entrance of the

censored the press and limited assemblies. Parliamentary democracy was destroyed after World War I in Italy (1922), Portugal (1926), the Baltic states (1926), Hungary (1919), Poland (1926), the Balkan countries (1923, 1926, 1929), Belgium (1926, 1935), Germany (1934), Austria (1934), The Netherlands (1935), Switzerland (1935) and Spain (1936).

33. C. Maier, *Recasting Bourgeois Europe* (Princeton: Princeton University Press, 1975), 581.

34. D. E. McHenry, *His Majesty's Opposition* (Berkeley: University of California Press, 1940), 16–17.

35. E. H. Carr, *The Soviet Impact on the Western World* (New York: Macmillan, 1947), 264.

German SPD into coalition governments during the Weimar Republic, and the refusal of non-socialist parties, organised business interests and the military to cooperate with them, caused the collapse of the Republic.³⁶ During the interwar years, socialist parties were shut down by right-wing governments in Italy, Germany, Austria and Spain, and outlawed in Portugal, Hungary, Poland and the Balkan countries. In most of Europe, socialist and communist parties' participation in the political process was extremely fragile until after World War II.

II. The Trans-Local Structure of Industrial Capitalist Expansion

States in Europe were built up within a pre-existing, region-wide system of social institutions, relationships and norms. For centuries, and with the Church acting as an international unifying agent, political development, class struggles, social change, ideology and culture remained essentially trans-European.³⁷ The expansion of industrial production in Europe brought different groups across states into closer relations of interdependence. While the properties of dominant groups in different parts of Europe may have varied, the connections and interactions among them produced a set of common solutions to the problems of organising production along new lines.

The most acute problem that arose with the expansion of industrial production was how to mobilise a mass of workers for this expansion while at the same time maintaining their subordination to capital. The dominant 'solution' to this problem was to very slowly and selectively introduce mechanisation while predominantly using methods of production that deskilled workers and kept labour, as a whole, fragmented and poorly paid.³⁸ However, this raised an additional problem: if the standard of consumption of the mass of the national population remained the

36. See, Richard Breitman, *German Socialism and Weimar Democracy* (Chapel Hill: University of North Carolina Press, 1981).

37. See for example, M. Mann, 'European Development: Approaching a Historical Explanation' in J. Baechler, J. A. Hall and M. Mann, eds. *Europe and the Rise of Capitalism* (Oxford: Basil Blackwell, 1988); H. Pirenne, *Economic and Social History of Medieval Europe* (New York: Harcourt, Brace and Co, 1966).

38. Reflecting the character of British industry as a whole, Britain's labour market exhibited a sharp dualism. In the export sectors, where workers earned higher wages in relatively more skilled and more secure jobs, there developed a 'labour aristocracy' consisting of 'a maximum of 15%, and probably less', of the workforce. E. Hobsbawm, *Industry and Empire* (London: Weidenfeld and Nicolson, 1968) 161. The other 85% of the workforce, including women, children, rural labour and migrants, worked in low-waged, unskilled jobs with little security, and in poor working conditions. Throughout the century earnings for this mass of workers remained insecure and insufficient. See Halperin, *War and Social Change*, 91–9.

same or was reduced, where would consumers be found for the products of expanded production?³⁹ The *overall solution*, therefore, was to expand production principally for export to ruling groups in other countries. In this way, ruling groups could limit the development of mass purchasing power at home, while developing it among foreign groups and ruling bodies through the creation of public debt, and investment in infrastructure, railroads and armaments. As a result, the expansion of production, both within and outside Europe, involved, not whole societies, but the advanced sectors of dualistic economies in interaction with others in Europe, Latin America, Asia and elsewhere.

It is generally the case that elites are interested in adopting the most up-to-date methods of multiplying their revenue, wealth and power. States and groups follow the leaders, emulate their goals and adopt their policies.⁴⁰ It was thus that common problems arising from the establishment of a capitalist labour market and new labour processes were generally resolved throughout Europe in broadly similar ways. In Britain, dominant classes ensured that the conditions for realising profit were met by using methods of absolute surplus value production at home and expanding production largely for export to other ruling groups. This became the model for industrial organisation throughout Europe.⁴¹

39. Mass consumption is associated with democracy. That its corrosive effects were widely recognised is evident in the laws regulating consumption throughout history, in Europe and elsewhere. Sumptuary laws restricted the personal consumption of goods based on class and income and were enacted in Europe between the 15th and 18th centuries, as in other places and times, to preserve and reinforce lines of distinction between classes. They were aimed largely at the masses and 'uppity' middle-class elements. Laws forbidding the common people from clothing themselves like their betters were retained by many states well into the 19th century. See, e.g., A. Hunt, *Governance of the Consuming Passions* (Basingstoke: Macmillan, 1996), and F. E. Baldwin, *Sumptuary Legislation and Personal Regulation in England* (Baltimore: Johns Hopkins University Press, 1926).

40. That is why nationalist policies and rhetoric emerged across different societies. As Liah Greenfeld shows, groups in different countries were facing problems similar to those that, in England, had given rise to nationalism and, with modifications, they copied the model developed in England. L. Greenfeld, *Nationalism* (Cambridge, Harvard University Press, 1992). Solutions developed in one country were, thus, observed and copied, with modifications relevant to the specific context. Charles Tilly enlarges on this point: developments in some countries 'created visible, prestigious, transferable models for exploitation and opportunity hoarding'. As a result, 'Throughout the world, administrative structures, constitutions, and declared commitments of regimes to development, stability, and democracy came to resemble each other far more than did the diversity of their material conditions and actual accomplishments'. C. Tilly, *Durable Inequality* (Berkeley, University of California Press, 1991), 180.

41. Halperin, *War and Social Change*, 78–118

Europe emerged into its first century of industrial capitalism from the crucible of the Great War. A quarter-century of war and revolutionary turmoil had made clear the central dilemma for dominant groups tempted by the possibilities of great profits from the expansion of production: how to mobilise – train, educate and, in other ways, empower – labour while, at the same time, maintaining the basic relation of capitalism, i.e. the subordination of labour to capital. Many analogies were drawn between the mass army of soldiers created in the Great War and the mass industrial army of workers needed for industrial capitalist production. At the same time the socialism born in the French Revolution with its focus on eradicating private property – something dominant classes had achieved through a century or more of struggle – seemed, in combination with the revolutionary ferment unleashed by the war, to threaten an anti-capitalist revolt of the masses. This was the context within which elites throughout Europe undertook to mobilise labour for industrial production.

Elites were cohesive, had much to gain, controlled immense resources and were free to deploy them in a sustained pursuit of their aims. They either controlled the apparatus of the state directly or had access to political leaders and could trade their political support, or the withdrawal of political opposition, for concessions from them. They were therefore able to carry out, throughout the 19th century, a purposive, determined and essentially coherent legislative, legal, military and political assault on artisans, labourers and peasants. However, these policies had unintended consequences: by generating the imperialist rivalries and conflicts that eventually led to multilateral great power war in Europe, external expansion ultimately forced governments and ruling elites to mobilise (and, thus, organise, train and, in other ways, empower) the masses. This is precisely what it seemed a century of external expansion had enabled them to avoid. As a number of scholars have shown, war often produces social levelling, revolution and shifts in the balance of social forces.⁴² In the course of the world wars this is what happened in Europe.

The 'European Model' of Industrial Capitalist Expansion: a Reinterpretation

Foreign trade was the primary engine of economic growth in England in the 19th century; but it was the home market, and the 'democratisation of consumption', that initially gave the impetus to England's industrial growth. Britain's industrial output quadrupled during the 18th century,

42. See, e.g., A. Marwick, *Image and Reality in Britain, France, and the USA Since 1930* (London: Collins, 1980), 211–37; and S. Andreski, *Military Organization and Society* (Berkeley: University of California Press, 1968), 33–8.

and the bulk of this output was mass consumption goods.⁴³ In the 19th century, however, and long before it had been exhausted as a market for goods and capital, Britain's domestic economy ceased to expand; so much so, that by 1914 it had become under-mechanised and poorly integrated relative to those of other advanced countries. Numerous scholars have pointed out that British investors under-invested in the domestic economy and that funds used for British foreign investment could have helped to develop a domestic market for the expanded output of the British economy.⁴⁴ Moreover, between 1880 and 1914 returns from overseas investment were far below what might have been earned by devoting the same resources to the expansion of domestic industry.⁴⁵

Why, then, did investors neglect opportunities for profitable home investment and, instead, pursue investments overseas that were more difficult and costly to acquire and, in some cases, not as lucrative? The usual explanation is that the domestic market was not yet developed enough to provide profitable investment opportunities for surplus capital and that, as a result, capitalists were forced to seek for more profitable fields of investment abroad.⁴⁶ But capital exporters did not then, and tend not now, to have capital-saturated domestic economies. Britain, and other European economies, did not, as is usually assumed, develop initially on the basis of the expansion of the internal market and then, subsequently, expand into the foreign, colonial and world markets: they

43. D. E. C. Eversley, 'The Home Market and Economic Growth in England, 1750–1780', in E. L. Jones and G. E. Mingay, eds., *Land, Labour, and Population in the Industrial Revolution* (London: Arnold, 1967), 22; N. McKendrick, J. Brewer and J. H. Plumb, *The Birth of a Consumer Society* (London: Europa, 1982), 29.

44. Michael Barratt Brown, *After Imperialism* (London: Merlin Press, 1970, rev. edn), x. On Germany and France see H.-U. Wehler, *Bismarck Und Der Imperialismus* (Cologne: Kiepenheuer, 1969), and H. L. Wesseling, *Imperialism and Colonialism* (Westport: Greenwood Press, 1997).

45. L. E. Davis and R. A. Huttenback, *Mammon and the Pursuit of Empire* (New York: Cambridge University Press, 1988), 67. It might be argued that capitalists *thought* that profit margins were higher abroad. While we cannot definitively answer whether or not this was the case, we *can* consider the overall context in which investment and other decisions were made; and key aspects of this context, it is here being argued, included widespread fears of proletarian radicalism, a reorganisation of production which limited industrialisation and the distribution of its gains, in which the vast mass of workers remained solely a factor of production rather than of consumption, and which shifted 'the composition of output in favor of capital goods, exports and goods and services for upper-class consumption'. P. Deane, *The First Industrial Revolution*, (Cambridge: Cambridge University Press, 1979, 2nd edn), 270.

46. See, e.g. V. I. Lenin, *Imperialism* (New York: International Publishers, 1939). The notion that advanced countries had capital-saturated economies, was current at the time Lenin wrote and has since been embraced by a wide variety of theorists and historians.

expanded production first and foremost for foreign markets, and long before the opportunities for profitable investment had been exhausted at home.⁴⁷ The market that was 'saturated' in Britain in 1902 and before, as John Hobson made clear, was the one constituted solely by the wealthy classes. He argued that whatever was produced in England could be consumed in England, provided that there was a proper distribution of 'the "income" or power to demand commodities'.⁴⁸ But, as Hobson noted, more than a quarter of the population of British towns was living at that time at a standard 'below bare physical efficiency'.⁴⁹

Some theorists argue that while capital exports may not have been necessary as a means of securing markets for surplus goods, they were necessary to Europe's industrialisation as a means of acquiring raw materials and accumulating capital. However, Paul Bairoch has argued that the 'core' countries had an abundance of the minerals of the Industrial Revolution (iron ore and coal); they were almost totally self-sufficient in raw materials and, in fact, exported energy to the Third World. In fact, non-colonial countries had, as a rule, a more rapid economic development than colonial ones during the 19th century.⁵⁰

Given the difficulties with standard interpretations of British investment, it seems reasonable to look elsewhere for an explanation.

Britain's consumer revolution in the 18th century had important implications for the structure of British society. Mass consumption is associated with democracy. The economic power workers would have exercised as consumers would have enabled them to exercise power over wages and prices.⁵¹ In Britain, the real wage per head was raised as the product per worker was raised. However, the share of this product handed over to the worker in wages did not.⁵² Consequently, the standard of consumption of labour bore no relation to its productivity. As long as the vast mass of workers remained solely a factor of

47. See, e.g., C. Trebilcock, *Industrialization of the Continental Powers 1780–1914* (London: Longmans, 1981).

48. J. A. Hobson, *Imperialism: A Study* (London: Allen and Unwin, 1902), 88.

49. *Ibid.*, 86.

50. P. Bairoch, *Economics and World History: Myths and Paradoxes* (London: Harvester, 1993), 77, 172.

51. In previous centuries, when the production of goods in Europe had been largely for local markets, the masses had been able to exercise power through consumer choice or boycott. In the 18th century, capitalists in England had depended on the sale of cereals and meat to millions of consumers and there was a 'highly sensitive consumer-consciousness' among working people and a tradition of popular action to gain fair prices. Workers also acted to gain fair wages and to regulate their work time. E. P. Thompson, 'The Moral Economy of the English Crowd in the Eighteenth Century', reprinted in *Customs in Common: Studies in Traditional Popular Culture*, 185–258 (New York: The New Press, 1993), 189.

52. E. H. P. Brown, *A Century of Pay* (London, Macmillan, 1968), 31.

production rather than of consumption, their increased productivity did not provide them with the purchasing power needed for a higher standard of consumption. Consequently, while wages rose with increases in productivity, they declined in relation to the wealth of society and the ruling class.

Had the 'democratisation of consumption' of the 18th century continued, and had a broad-based industrial growth developed, along with the mass purchasing power and internal market needed to support it, the class, land and income structures on which the existing structure of social power in Britain rested would have been destroyed. The consumer revolution and the emergence of a domestic market for mass-produced consumer goods, because it worked to undermine class distinctions and increase social mobility, was politically threatening and, thus, was not encouraged. Moreover, a fully industrialised economy, as distinct from the more circumscribed industrialisation-for-export that was pursued in Britain, requires mass mobilisation. Mass mobilisation for industry (as for war) creates, out of the relatively disadvantaged majority of the population, a compact and potentially dangerous force; thus, elites were concerned to limit industrial expansion.⁵³ Marx, as in much of his writing, was here perhaps only reflecting a general perception of his times when he wrote that:

The advance of industry ... replaces the isolation of the labourers ... by their revolutionary combination, due to association. The development of Modern Industry, therefore, cuts from under its feet the very foundation on which the bourgeoisie produces and appropriates products.⁵⁴

The development of exogenous demand and consumption through the export of capital and goods provided the basis for a limited industrial

53. As Tom Nairn argued, Britain's elite opposed any 'aggressive development of industrialism' and the social transformation necessary to it. Tom Nairn, *The Break-Up of Britain* (London: Verso, 1981, 2nd rev. edn), 21. In this, as Nairn and others have observed, German elites were similar. Elite fears that industrial expansion would increase the danger of socialism was much in evidence in the opinions expressed in *Kreuzzeitung*, the most influential organ of German conservatism. Friedrich Richter, *Preussische Wirtschaftspolitik in den Ostprovinzen* (Königsberg: Ost Europa, 1938), 48–52; cited in Frank B. Tipton, *Regional Variations in the Economic Development of Germany During the Nineteenth Century* (Middletown, CT: Wesleyan University Press, 1976), 115–16. And the opposition of these elites was successful in hampering industrial development plans in Germany in the 1890s and preventing their revival after 1902. See, also, M. J. Weiner, *English Culture and the Decline of the Industrial Spirit, 1850–1980* (Cambridge: Cambridge University Press, 1982), 1–10.

54. Karl Marx, *Communist Manifesto* (London: Penguin, 1967), 93–4. It might be argued that owners of wealth were not conscious of the social externalities associated with the application of large masses of labour to production. This seems hardly plausible. But if they were not, would they not have been after

expansion, and one whose benefits would be retained solely by the property-owning classes. In 1914, British industrialisation was as sectorally and geographically limited as dualistic colonial economies. Landed and industrial property had become increasingly concentrated. Mechanisation, skilled labour and rising productivity and real wages were found only in sectors producing for export. These sectors had only a limited impact on the rest of the economy. Little attempt was made to expand or mechanise industries producing goods for domestic household consumption. Even Britain's export industries were slow to adopt new techniques or improvements, not only in textiles, but also in coal, iron, steel, railways and shipbuilding.⁵⁵

The Circuit of Capital

Europe's economy before World War II was based on the development of external markets for heavy industry and high-cost consumption goods. By expanding its shipbuilding, boiler making, gun and ammunition industries, Britain was able to penetrate and defend markets overseas; this, in turn, provided opportunities for Britain to build foreign railways, canals and other public works, including banks, telegraphs and other public services owned or dependent upon governments. British exports of capital provided purchasing power among foreign governments and elites for these goods and services, and funded the development and transport of food and raw materials exports to Europe, thus creating additional foreign purchasing power and demand for British goods, as well as decreasing the price of food, and thereby the value of labour, in Britain.⁵⁶ At the centre of

Marx spelled it out for them in the widely read and cited *Communist Manifesto*? Britain's limited industrialisation meant that 85 percent of its workforce (those working outside the export sector) remained in low-waged, unskilled jobs with little security, and poor working conditions; the bulk of it worked in agriculture, which remained the largest branch of the British economy in employment terms until 1901 (Hobsbawm, *Empire and Industry*, 195). Until World War II, British agriculture was largely unmechanised: the majority of farms in England and Wales did not possess either a tractor or a milking machine, despite their having been available for some thirty years or more. L. Benson, *The Working Class in Britain, 1850–1839* (London, Longman, 1989), 19. Landowners' control over the countryside and the rural populations ensured that rural workers did not join the ranks of organised labour until World War I. As shall be argued further on, it was mobilisation for the world wars that united urban and rural, skilled and unskilled, labour for the first time. See footnote 69 below.

55. See Halperin, *War and Social Change*, 78–118.

56. Britain's industrial wage earners realised 55–60 percent of their wage in the form of food; the steady fall in prices of staple food imports after 1874 allowed real wages in Britain to rise until World War I. P. Mathias, *The First Industrial Nation* (New York: Methuen, 1983), 343.

this circuit was the City of London, which like the advanced sector of a 'dependent' economy depended 'only slightly' on Britain's economic performance.⁵⁷

The bulk of Britain's capital exports between 1880 and 1913 went to the Dominions, Europe and the US. Almost 70 percent of it went into docks, tramways, telegraphs and telephones, gas and electric works and, in particular, the enormously capital-absorbing railways. Only the production of modern armaments is more capital absorbing (the mass production and export of armaments began with the United States in the 1860s).⁵⁸ Increasing blocks of territory throughout the world became covered with networks of British built and financed railroads, provisioned by British steamships and defended by British warships.

It was the conviction of 'many authors' that the prosperity and political and social stability enjoyed by the great colonial powers was connected with their overseas possessions.⁵⁹ However, by 1914 the extremes of wealth and poverty created by dualistic economic expansion were generating more or less continual conflicts.⁶⁰ Britain, in 1914, 'was a divided country, in which extremes of wealth and poverty coexisted, often in a state of mutual fear and incomprehension'.⁶¹ In 1913, less than 5 percent of Britain's population over 25 years of age possessed over 60 percent of the wealth of the country.⁶² Although the population of Britain had become on average nearly three and a half times richer between 1830 and 1914, 'up to a third of the population in 1914 had incomes which did not provide them with sufficient food to sustain health throughout the year'.⁶³ Wages rose sharply between 1905 and 1913, but the gain was offset by a strong increase in the cost of living and by a wide range of social and economic factors.⁶⁴

By 1914, tensions were rising not only within European states, but also among them. As more and more countries began pursuing dualistic, externally oriented economic expansion, expansionist aims began

57. Boyce, *British Capitalism at the Crossroads*, 18–19.

58. Maurice Dobb, *Studies in the Development of Capitalism* (New York: International Publishers, 1963), 296. Hobsbawm argues that 'many of the railways constructed were and remained quite irrational by any transport criterion'. However, investors were looking 'for any investment likely to yield more than the 3.4 percent of public stocks'. *Industry and Empire*, 111.

59. Wesseling, *Imperialism and Colonialism*, 41.

60. See Halperin, *War and Social Change*, chapters 4 and 5.

61. R. Floud, *The People and the British Economy, 1830–1914* (New York: Oxford University Press, 1997), 7.

62. S. B. Clough, *Economic History of Europe* (Boston: D.C. Heath and Co, 1940), 672–3.

63. Floud, *The People and the British Economy*, 3, 15.

64. L. Benson, *The Working Class in Britain, 1850–1939* (London: Longman, 1989), 56.

increasingly to focus on Europe itself and, as they did, Europe's balance of power and imperialist regimes began to dissolve.

III. What Changed and Why?

The threat of an imperialist war in Europe forced governments and ruling elites to do precisely what a century of *overseas* imperialist expansion had enabled them to avoid: mobilise the masses.

In the 18th century, governments had relied on the social elite to pay for mercenary troops and to provide military leaders to fight professional wars. The impact of these wars on the social order had been relatively limited. However, participation of the lower classes in the wars fought by Napoleon's mass 'citizen' armies and in the mass armies mobilised to fight against them, as well as in areas of work and social life usually barred to them, worked to enhance the power of labour and to strengthen its market position.⁶⁵ It also compelled governments to ensure their loyalty by extending to them various rights.⁶⁶ Thus, after the Napoleonic Wars, and despite the difficulty of raising and maintaining large mercenary forces, there was a return to old-style armies of paid professionals, mercenaries and 'gentlemen'.⁶⁷ The new weapon introduced by Napoleon was used in 1870 by France and Germany, also with frightening consequences (the rising of the Paris commune), and then not again until 1914.⁶⁸

In 1914, aggressive imperialist threats on their frontiers forced European states, once again, to use what was then still the most powerful weapon of mass destruction: the *levée en masse*. The mass mobilisations for World War I set in motion a social revolution that, between 1917 and 1939, swept through Europe. Efforts to prevent its further spread and escalation led directly to World War II. At its end, the region was wholly transformed. Previous regional conflagrations had been followed by

65. See footnote 42.

66. Serfdom was abolished in Prussia concurrently with Stein's military reforms, as it was in Russia when Alexander II transformed the army from a professional into a conscript force. In Austria, the adoption of universal military service coincided with reforms that established a constitutional Monarchy. (Andreski, *Military Organization*), 69.

67. B. Silver and E. Slater, 'The Social Origins of World Hegemonies', in G. Arrighi and B. J. Silver, eds., *Chaos and Governance in the Modern World System* (Minneapolis, MN: University of Minnesota Press, 1999), 190.

68. See, for an overview of this issue, M. Howard, *The Franco-Prussian War: the German Invasion of France, 1870–1871* (London: Rupert Hart-Davis, 1961), 8–39. Russia conscripted large numbers of men for the Crimean War; but contrast an account of the forces raised for that war (T. Royle, *Crimea: The Great Crimean War, 1854–1856* [Boston, Little Brown and Company, 1999], 91–92) with an account of the French mobilisation in 1870–1871 (B. Taihe, *Citizenship and Wars: France in Turmoil, 1870–1871* [London, Routledge, 2001], esp. 6–13, 22–8, 38–47).

restorations (e.g., the Napoleonic Wars, the revolutions of 1830 and 1848, and World War I); however, World War II, by shifting the balance of class power throughout Europe, made restoration impossible. Instead, the vastly increased organisational strength and power of working classes and peasant masses,⁶⁹ and the decline of the aristocracy as a result of war-time changes, created the conditions for a historic class compromise and for the achievement in Western Europe both of a relatively more nationally embedded capitalism (i.e., a more balanced and internally oriented development) and of democracy.

The class compromise concluded in Western Europe after World War II was based on social democratic and Keynesian goals and policy instruments. It required that social democrats consent to private ownership of the means of production and that capitalists use the profits they realised from this to increase productive capacity and partly for distribution as gains to other groups.⁷⁰ Wages rose with profits, so that labour shared in productivity gains, making higher mass consumption possible for new mass consumer goods industries. For the first time parties representing labour became legitimate participants in the political process. After 1945, socialists regularly participated in coalition governments in Austria, Switzerland, the Low Countries and the Nordic Countries. Labour and Socialist Parties formed governments and joined ruling coalitions in Britain and France. In Italy, the Christian Democrats brought the Independent Socialist Party into the government in 1963. In West Germany, socialists ruled in coalition with the Christian Democrats from 1963 to 1966, and formed the first left government in the history of the Federal Republic in 1969.

Post-World War II development in Europe was characterised by sustained growth rather than short-lived windfalls, and by a more

69. Unskilled labour joined the ranks of organised labour for the first time between 1914 and 1921. James Cronin observes that, before the war, the distinction within the working class 'between "rough" and "respectable," between the skilled and organized and the unskilled and unorganized', had been 'very real to contemporaries and was reflected in many aspects of politics and collective action'. Following the war, however, 'a variety of technical, social and economic processes conjoined to produce a working class that was, if not more internally homogeneous, at least less sharply divided within itself, and also more culturally distinct from middle and upper class society than its Victorian analogue had been'. After the war, and throughout Europe, skilled and unskilled workers, workers of different occupations, anarchists and socialists, social democrats and communists, revolutionaries and reformists closed ranks to press for change. James Cronin, 'Labor Insurgency and Class Formation: Comparative Perspectives on the Crisis of 1917–1920 in Europe', in J. E. Cronin and C. Sirianni, eds., *Work, Community and Power: The Experience of Labor in Europe and America, 1900–1925* (Philadelphia: Temple University Press, 1982), 139, 121.

70. A. Przeworski, 'The Material Bases of Consent', *Political Power and Social Theory* 1 (1979): 21–63.

equitable distribution of income. No longer based on dualistic expansion, it was the outcome of the performance largely of the society itself rather than of foreign islands of capital.⁷¹ The benefits of this prosperity were very widely diffused. There is near unanimity that, in Britain, income after World War II was distributed more equally than in 1938. Before the World War I (1911–13) the top 5 percent of the population owned 87 percent of personal wealth, the bottom 90 percent, 8 percent; in 1960, the figures were 75 percent and 17 percent.⁷² In contrast to pre-war economic policies, post-war policies were characterised by a more equitable distribution of income as well as rising income per head. Very large wage increases were conceded by many governments as one of their first acts following the war; and raising the level of employment was treated as a very high priority in the formulation of development strategies and plans, and in the laying down of investment criteria. Sustained investment, balanced growth, the elimination of monopoly and the production of higher levels of welfare for the population produced broad-based development and unprecedented growth.

Western Europe's phenomenal growth after World War II has been attributed to a variety of factors, including Marshall Aid, the creation of regional institutions and trade liberalisation, the influx of foreign labour, war-induced institutional and technological changes and 'learning'.

Marshall funds played a prominent role in Western Europe's post-war recovery, but investment capital had not been lacking before the war: Britain, France, Germany and Austria made enormous amounts of capital available to each other and to other European countries. And Eastern Europe, which received no Marshall funds, also experienced an unprecedented period of rapid industrial development and increasing affluence from the early 1950s until around 1970. By the time regional and international organisations had abolished trade restrictions among its members, Europe's post-war 'take-off' was well under way. Charles Kindleberger attributes Europe's rapid post-war growth to the availability of large supplies of labour.⁷³ But Western Europe had suffered, not from insufficient labour before the war, but from persistent unemployment, even during the 1920s;⁷⁴ and large

71. The dualistic, 'disembedded' economic expansion discussed throughout this article involves both capital and trade mobility: the dispersal of capital investment and production, and production for international trade at the expense of the expansion of domestic markets.

72. Hobsbawm, *Industry and Empire*, 274.

73. Charles Kindleberger, *Economic Growth in France and Britain, 1851–1950* (Cambridge, MA: Harvard University Press, 1964).

74. David Landes, *The Unbound Prometheus* (Cambridge: Cambridge University Press, 1969), 390–1.

numbers of foreign workers had been available and used in significant numbers.⁷⁵

Some scholars have argued that the world wars did not create, but only accelerated, the trends that produced Europe's relatively more nationally embedded economies;⁷⁶ that, as a result of their wartime role in managing economies and encouraging industrial expansion, governments had 'learned' how to create the mass demand necessary to base industrialisation on the expansion of the internal market. But government-induced demand creation was a key feature in Europe's 19th-century industrial expansion. Almost universally, government demand substituted for missing developmental 'prerequisites' such as capital, skills and a home market for industrial goods.⁷⁷ And if the post-war shift that oriented investment and production towards the domestic market was the result of 'learning', i.e. of gaining a better or different understanding of demand management, then why has this learning not benefited growth in the contemporary developing world?

Moreover, arguments about 'learning' misunderstand the nature of the changes that occurred throughout Europe following World War II. These changes, as Joseph Schumpeter and others have observed, represented, not a further evolution of 19th-century trends, but 'a massive capitulation' to social democracy. As Schumpeter noted, a decisive shift in the balance of class power had occurred throughout Europe as a result of World War II, and this explained, not only the transformation that had taken place there, but its apparent permanence:

The business class has accepted 'gadgets of regulation' and 'new fiscal burdens', a mere fraction of which it would have felt to be unbearable fifty years ago.... And it does not matter whether the business class accepts this new situation or not. The power of labour is almost strong enough in itself – and amply so in alliance with the other groups that have in fact, if not in words, renounced

75. K. Strikwerda, 'The Troubled Origins of European Economic Integration: International Iron and Steel Migration in the Era of World War I', *American Historical Review* 98 (October 1993), 1106–29, 1122.

76. See, e.g. Simon Kuznets, *Postwar Economic Growth* (Cambridge, MA: The Belknap Press, 1964).

77. Cynthia Morris and Irma Adelman, *Comparative Patterns of Economic Development, 1850–1914* (Baltimore: Johns Hopkins University, 1988), 123–4. During World War I, the machinery of government had vastly expanded in Britain: it nationalised industries, raised taxes, limited profits, controlled labour relations and imposed rationing and price controls to effect equitable distribution. However, after World War I, and despite the attempt by Britain's Ministry of Reconstruction to create new systems of land tenure, social insurance, public health, education and employment, all of which had been promised to labour in exchange for its wartime cooperation, forces of resistance worked 'to restore the social and economic conditions of 1914'. P. Abrams, 'The Failure of Social Reform: 1918–1920', *Past and Present* 24, (1963), 43–64; 58.

allegiance to the scheme of values of the private-profit economy – *to prevent any reversal* which goes beyond an occasional scaling off of rough edges.⁷⁸

To further consider the link between the shift in the balance of class power and Europe's post-World War II transformation, we might reflect on today's advanced industrial democracies. These are countries which: (1) never had an entrenched landed elite (Canada, New Zealand and Australia); (2) saw a significant decline in the power of landowners as a result of civil war (the United States); (3) experienced a breakdown of their traditional social structures and massive land reforms as a result of devastating wars (most of Europe); or (4) had a massive land reform imposed by external forces and experienced, as a consequence, the breakdown of their traditional class structures (Japan).

IV. Implications for Democracy Today

The discussion of preceding sections raises questions about the adequacy of current initiatives for achieving full participatory democracy. In particular, it challenges their association of economic openness with democratisation. The focus of a vast literature, as well as the rationale for most, if not all, major democracy promotion proposals and programmes, is based, implicitly or explicitly, on the association of the achievement of democracy with the development of more open economies. But, as previous sections argued, the achievement of Western democracy is associated, not with greater economic openness, but with the emergence of a relatively more nationally 'embedded' capitalism, involving greater restrictions on capital and an increase in state regulatory and welfare functions. The emergence of democracy, historically, is associated with a breakdown of traditional class structures, an increase in the power of working classes relative to that of other classes, a relatively more nationally embedded capitalism, the development of purchasing power among a mass domestic citizen workforce, and the extension and integration of domestic markets. It is associated with state policies that insured that wages rose with profits, so that labour shared in productivity gains, making higher mass consumption possible for new mass consumer goods industries. None of these changes feature prominently in the vast qualitative and quantitative literature devoted to exploring 'requisites' of democracy; nor are they outcomes envisioned or promoted by the democracy promotion efforts of Western governments, NGOs and international organisations.

In fact, it is frequently argued that globalisation and, in particular, unrestricted international transactions, potentially contribute to democratisation. In a widely-cited recent study, Daron Acemoglu and James Robinson argue that, if capital owners can more easily take their money

78. J. A. Schumpeter, *Capitalism, Socialism and Democracy* (London: Routledge, 1976), 419–20; my emphasis.

out of a given country, they will be more secure about democratic politics and less inclined to use repression to prevent a transition to democracy; and since trade opening increases rewards to the relatively abundant factor in each country, in less developed countries which have an excess of labour and a shortage of capital, international trade will work to reduce the gap between the incomes of labour and capital and thus change the extent of inequality between capital owners and labour owners.⁷⁹ The basic dynamic which this implies involves the maintenance of a balance of class power. Acemoglu and Robinson reinforce this point by arguing that the rich consent to democracy and redistribution when they deem the costs of continued repression or the threat of revolution to be too high and that, consequently, a relatively effective threat of revolution from the citizens is important for democratisation. When 'citizens are not well organised, the system will not be challenged and transition to democracy will be delayed infinitely'.⁸⁰

Establishing and maintaining a balance of class power has long been recognised as a requisite of stable democracy.⁸¹ In the post-World War II 'class compromise' in Western Europe, the relatively poorer majority gave up revolution and consented to private ownership of the means of production, while the relatively wealthier minority consented to democracy and redistribution, i.e. to using the profits they realise from private ownership of the means of production to increase productive capacity and for distribution as gains to other groups. The need for a balance of class power to maintain democracy suggests that countries that are more unequal will tend to be less democratic; and Acemoglu and Robinson find, in fact, that democracy is positively associated with a relatively higher labour share of GDP than is found in non-democratic countries.⁸²

But if democracy requires a balance of class power, then democracy depends on constraints that limit the possibility of the threat of massive disinvestment as a means of swaying the balance in favour of employers. This requires restrictions on the ability of capital owners to take their money out of a given country. It also requires restrictions on the ability of employers to undermine local labour by relocating or outsourcing production abroad where labour regulations are less stringent and more difficult to enforce.

However, structural adjustment programmes, which are designed to more widely open up economies to foreign capital and foreign trade, have been persistently promoted as inextricably linked to democracy and the expansion of civil society. The demise of the Washington Consensus

79. Daron Acemoglu and James A. Robinson, *Economic Origins of Dictatorship and Democracy* (Cambridge: Cambridge University Press, 2006), 20–1.

80. *Ibid.*, 31.

81. See, e.g., Adam Przeworski and Michael Wallerstein, 'Structural Dependence of the State on Capital', *American Political Science Review*, 82 (1992): 11–29.

82. Acemoglu and Robinson, *Economic Origins*, 59.

which promotes this view may be, as Charles Gore argues, 'inevitable'. But what Gore noted in 2000 probably also remains the case today: that it is still too early yet to announce its fall.⁸³ Evidence of its persistence can be seen in the fact that the measures these programmes prescribe are also found with almost unvarying regularity at the heart of a variety of other programmes and initiatives, including fast-track transitions from socialist systems, 'shock therapy', post-war and post-disaster (e.g., tsunami, hurricane) reconstructions, civil society initiatives, good governance proposals, stabilisation measures and democratisation promotion programmes.⁸⁴ In aggregate, they are also associated with the preconditions or exigencies of 'globalisation'.⁸⁵

But these measures stand in direct opposition to the changes associated with the achievement of democracy in the West, including the resumption by states of the welfare and regulatory functions that they had relinquished in the 19th century and the pursuit of policies designed to increase domestic investment, produce a more equitable distribution of income and expand domestic markets. Getting this history right is important. Misconceptions about how democracy was achieved in the past informs not only academic research and writing: it also shapes expectations in the Third World, the democratisation and development initiatives promoted by Western agencies and our understanding of globalisation and its relationship to democratic struggles throughout the world today.

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83. Charles Gore, 'The Rise and Fall of the Washington Consensus as a Paradigm for Developing Countries', *World Development* 28, no.5 (May 2000): 789–804, 800.

84. See, for instance, *The Greater Middle East Initiative* (GMEI), and the *Broader Middle East and North Africa Initiative* (BMENAI). These focus on a combination of democratisation measures linked to the adoption of more effective investment and trade policies.

85. See, for a review of recent, and inconclusive, empirical research on the effect of economic and financial globalisation on democracy, B. Eichengreen and D. Leblang 'Democracy and Globalisation', BIS Working Papers No. 219, Bank for International Settlements, Basel, Switzerland, 2006. Empirical evidence does suggest, however, 'that greater integration of deregulated trade and capital flows over the last two decades has likely undermined efforts to raise living standards for the world's poor'. A. Hersh, R. Scott and C. Weller, 'The Unremarkable Record of Liberalized Trade', Economics Policy Institute Briefing Paper, October 2001, <https://www.policyarchive.org/bitstream/handle/10207/8163/sept01inequality.pdf?sequence=1>. By maintaining or increasing inequalities, this might be assumed to negatively impact prospects for democracy.