

A black and white photograph of a very large, dense crowd of people, likely from the 1930s. The individuals are mostly men wearing suits and various styles of hats (fedoras, bowlers, flat caps). The crowd is packed closely together, filling the entire frame. The lighting is somewhat dim, and the overall tone is historical and somber.

THE POPULIST TEMPTATION

ECONOMIC GRIEVANCE
AND POLITICAL REACTION
IN THE MODERN ERA

BARRY
EICHENGREEN

Preface

Populism is a new phenomenon but also a very old one. This is most visibly true in the United States, where what is referred to as the Populist Revolt occurred in the nineteenth century. But it is also true of Europe, where charismatic leaders with anti-establishment, authoritarian, and nationalist tendencies, from Benito Mussolini to Ioannis Metaxas, captured the popular imagination, or at least the levers of power, in the 1920s and 1930s. Whether these specific individuals should be identified as populist is debatable. Charisma, for one thing, is in the eye of the beholder (as Max Weber reminded us).¹ More fundamentally there is the question of whether populism as a concept is well defined. But to the extent that there is something afoot in the United States, the United Kingdom, and Europe that involves the reaction of voters against the political establishment, nationalist and racist sentiment directed against foreigners and minorities, and a yearning for forceful, charismatic leadership, this something, whatever we call it, is not new.

By looking back at the history of the United States and Europe I hope to identify the economic, social, and political circumstances under which populism takes hold and the policies that most effectively combat it. I seek to determine why radical political movements with anti-elite, authoritarian, and nativist tendencies succeed at some times but not others. I hope to understand why in

some cases the center held, while in others political extremists carried the day.

Historical comparisons are powerful but perilous. A focus on extreme cases lends itself to exaggeration, and parallels can be overdrawn. Today is not the 1930s. By acknowledging differences and considering instances where a populist reaction was contained as well as those where populist leaders and movements usurped power, I hope to avoid the worst pitfalls.

The answers matter. The characteristic economic policies of populist leaders are damaging and destructive, and the impact of populists on political institutions is corrosive. The attitudes they animate bring out the worst in their followers. Populism arrays the people against the intelligentsia, natives against foreigners, and dominant ethnic, religious, and racial groups against minorities. It is divisive by nature. It can be dangerously conducive to bellicose nationalism.

The history recounted here suggests that populism is activated by the combination of economic insecurity, threats to national identity, and an unresponsive political system, but that it can be quelled by economic and political reforms that address the concerns of the disaffected. A first step is for policymakers to do what they can to reinvigorate economic growth, giving young people hope that their lives will be as good as those of their parents and older people a sense that their lifetime of labor is respected and rewarded. Populist revolts rarely arise in good economic times, in other words.

Equally important is that the fruits of that growth be widely shared and that individuals displaced by technological progress and international competition are assured that they have social support and assistance on which to fall back. Assuring them starts with acknowledging that there are losers as well as winners from market competition, globalization, and technical change, something that economists are taught at an early age but which they have a peculiar tendency to forget. It continues with acknowledging that economic misfortune is not always the fault of the unfortunate. It concludes by putting in place programs that compensate the displaced and by providing education, training, and social

services to help individuals adjust to new circumstances. This is not a novel formula. But if its elements are commonplace, they are no less important for that.

Commonplace, however, is not the same as straightforward. Modern societies show disturbingly little capacity to respond in this way. They struggle to develop a political consensus around the desirability of implementing and, no less important, adequately financing programs that compensate the displaced and help them adjust to new circumstances. In turn this points to a second source of populist disaffection, namely, the dysfunctionality of the political system. Here the relevant institutions include the electoral system, the legislature, the civil service, and the courts, but also civil society and the Fourth Estate. Their structure shapes the responsiveness of government, which is the ultimate measure of whether the citizenry has a voice. Political institutions are also a key ingredient of political stability and hence of the capacity of society to pursue policies making for growth and an equitable distribution of its fruits. Suitably designed, they give voters and candidates for office an incentive to move to the political middle. They help cultivate a social and political consensus for prevailing policies, which in turn makes for stability, economic and political both. But those institutions can also provoke dissatisfaction and incite a political reaction when they fail to deliver the goods.

The problem is that political institutions are not malleable. By design, they are hard to alter, precisely in order to prevent the players from changing the rules in the middle of the game. The institutional inheritance will therefore reflect the imperatives of the past. For instance, the peculiar history of the United States, notably the historical division between free and slave states, bequeathed an Electoral College and a bicameral legislature whose upper chamber gives disproportionate voice to rural interests, accentuating the rural-urban divide that figured prominently in Donald Trump's election in 2016. By delegating to state legislatures the power to draw congressional district lines, this legacy has

encouraged the creation of safe districts whose occupants have little incentive to move to the middle. A history of institutionalized racism—institutionalized by political means—has bequeathed a legacy that continues to limit trust, complicating efforts to agree on the provision of public goods. This inheritance is one reason the United States has a less elaborate social insurance state than other advanced economies, rendering it particularly susceptible to a backlash from individuals displaced by changes in technology and globalization.

Reform of these institutions, while easy to imagine, is hard to accomplish. Hard, though, is not the same as impossible. In the early twentieth century, the Populist Revolt was quieted by political reforms, including the direct election of senators and referendum processes that allowed voters to bypass captured and corrupt state legislatures. More recently, states have sought to address gerrymandering by delegating the drawing of congressional district lines to independent commissions. But given the country's history and, consequently, its current political configuration, more fundamental reforms, such as of the Electoral College, are beyond the pale.

If the challenge facing the United States stems from America's distinctive national identity, then the challenge for Europe is the absence of a European identity. The European Union (EU) was Europe's response to three wars in less than a century. It was most visibly an economic project, a framework for fostering stability and growth that, by preventing economic disasters like those of the 1930s, would remove the basis for an anti-establishment, authoritarian, nationalist revolt. But at a deeper level it was a political project, since it was necessary to provide for the accountability of those making decisions for the continent as a whole. Creating a single market, the argument went, would highlight the need for shared oversight and governance of that common European space. A true single market would require an anti-trust (or competition) authority to prevent the abuse of monopoly power. It would require an anti-subsidy (or anti-state-aid) authority to prevent favoritism of national

champions and ensure a level playing field. Carrying out those tasks would require the creation of European institutions. And through the creation of European institutions and the day-to-day process of shared governance, deeper integration and, ultimately, a common European identity would emerge.

But that European identity, in practice, has been slow to develop, national identities being deeply rooted. In its absence there has been a hesitancy to cede significant prerogatives to European institutions. There has been reluctance to delegate meaningful powers to the European Parliament, the body of EU-wide elected representatives. Key decisions are taken in intergovernmental negotiations by European heads of state, meeting as the European Council or Eurogroup, in a process that highlights differences between countries instead of moderating them. Accentuating those differences makes it hard for EU members to agree on policies that foster growth with equity, giving populist politicians an economic platform on which to stand. And where there has been a willingness in practice to delegate powers to entities like the European Commission, the EU's proto-executive branch, its members are perceived, not unreasonably, as unaccountable technocrats, given the absence of a European polity to hold the bureaucrats in question fully accountable for their actions.

One can imagine modifying these political arrangements—for example, strengthening the powers of the European Parliament and directly electing the president of the Commission. But even if the history of the EU is shorter than the history of the United States, the institutional inheritance again stands in the way. Not just are the EU's institutions a product of the continent's peculiar history, but they are embedded in a set of international treaties whose modification requires unanimous consent, something that is even less likely than getting three-quarters of U.S. states to agree on a constitutional amendment changing the Electoral College. And the absence of those reforms, whose proponents struggle to overcome the shadow of history, renders the EU a prime populist target.

The present book, which elaborates these themes, is prompted by the rise of

European populism, by the victory of Leave in the UK referendum on EU membership, and by the election of Donald Trump. But many of the ideas it elaborates arose already in my earlier writing. In *Golden Fetters: The Gold Standard and the Great Depression* (1992), I described the policy choices that led to economic and social breakdown in the 1930s and traced their roots to political institutions that gave rise to unstable governments, perverse and inconsistent policies, and political reaction. A subsequent book, *The European Economy Since 1945: Coordinated Capitalism and Beyond* (2007), was an attempt to describe the historical origins of the European Union, the nature and limits of European identity, and the rise and fall of the mixed economy. My recent book, *Hall of Mirrors: The Great Depression, the Great Recession, and the Uses—and Misuses—of History* (2015), was an effort to show how politics sets the stage for financial crises, how those crises fuel political extremism, and how history shapes the response for better and worse.

But this book differs from that earlier work in that the questions are more fundamentally political, although the answers remain heavily economic. Those answers are also fundamentally historical. Viewing developments in a historical light directs an author's attention not just to deep economic and political structures but also to historical contingency—to chance events, personalities, and human agency. I am conscious that a historical perspective also conduces to a kind of fatalism: to the sense that inherited political arrangements, social structures, and economic institutions render some countries more susceptible to populist reactions and leave them less scope for mounting a constructive response. As someone who likes to think of himself as reasonably optimistic, I do my best to resist that kind of fatalism, concluding this volume with some ideas for how the United States and Europe should respond to the populist threat.

Thanks go to Joshua Lustig, who commissioned for *Current History*, the journal that he edits, an essay on the history of populism in the United States. That essay provided the spark for the rest of the book.



2



American Panorama

economic inequality and exclusion dominated electoral politics in 2016 and no doubt will do so again in the not too distant future. The context and country may change, from the Brexit referendum in the United Kingdom and Donald Trump's presidential campaign in the United States, to support for Geert Wilders's anti-immigrant Party for Freedom in the March 2017 Dutch elections, and Marine Le

Pen of the far-right National Front making it to the second round of France's 2017 presidential election. But the taproot of support for these anti-system, anti-globalization, anti-immigrant movements and parties is in each case fundamentally the same.

The common denominator is the sense on the part of a growing segment of society of having been left behind. People see their wages stagnating and their jobs growing less secure. Rising inequality suggests that this is not just an economic problem, in that GDP and productivity are growing less rapidly, but also a political problem, insofar as those income gains as occur accrue mainly to the wealthy. Whether technology, trade, or immigration is to blame is uncertain. Hence the tendency to blame all three and to vent one's anger by voting against establishment politicians and parties.

Relatedly, there is the feeling that society and the government through which its members translate their preferences into policy have lost control of these processes. They have lost control of the nation's borders, allowing immigration to run wild. They have lost the ability to guarantee national and personal security, where fear of terrorism merges in popular and political discourse with fear of immigration. They have lost the capacity to create good manufacturing jobs, permitting China to capture them by striking unfair trade deals and manipulating its currency.

Finally there is the feeling that those in charge have allowed the erosion of the collective institutions through which earlier economic and social challenges were met. The decline in trade union membership, which in the United States dates from President Ronald Reagan's efforts to break the air traffic controllers union, weakened an institution through which workers were able to advance their case for security of employment and a fair share of corporate earnings. Deregulation, espoused by politicians receiving campaign contributions from large corporations, allowed pharmaceutical firms, health insurers, and hospital chains to charge their customers what they wished. Local communities that have

grown more heterogeneous, whether because of immigration or other reasons, have lost their collective solidarity. They therefore provide less support, both financial and psychological, to their disadvantaged members. All this leaves voters with a helpless sense that their fate is being decided not by their local communities and governments but by forces, some anonymous and others all too identifiable, beyond their borders and beyond their control.

This new populism bears more than a passing resemblance to the old populism of the nineteenth century. The Populist Revolt in nineteenth-century America was a complex phenomenon motivated by a range of economic grievances and social concerns.¹ Much Populist rhetoric singled out rapacious moneylenders and monopolistic railways for exploiting hardworking midwestern farmers powerless in the face of high interest rates and ruinous shipping costs. But there were also others, including the Greenbackers—farmers and miners who focused on the monetary system as the source of their problems and who advocated replacing the gold standard with a paper currency system designed to deliver higher prices. If there was a common factor uniting these disparate groups, it was commercialization, which created a heightened sense of insecurity by exposing farmers and others to market forces beyond their control.² Produce sold locally was now priced globally, subjecting farmers to international market forces of which they lacked understanding, much less an ability to cope. A farmer's income from raising wheat in Nebraska now depended on yields in the barley fields of Ukraine. The price of Sea Island cotton was affected by rainfall in the Nile Basin. Although the telegraph, like the Internet recently, helped farmers obtain more up-to-date information about prices and yields in these far-flung places, that information didn't help them do much about the consequences. Interest rates and freight charges may have played only a subsidiary role in the farmers' difficulties, but it was still easier to blame the railway and the bank, which had a physical presence, than invisible Egyptian cotton and Ukrainian grain growers. And it was easier to blame a government seemingly unable to do

anything about these problems.

The Populist Revolt involved more than just agrarian unrest, as famously depicted by C. Frank Baum in *The Wizard of Oz*.³ The Scarecrow, embodying the beleaguered farmer, had as his steadfast companion the Tin Woodman, the factory worker struggling to cope with an industrial environment dominated by large firms with monopsony power and arbitrary labor-management practices. The Knights of Labor, the first American workers' organization of consequence, may have been founded in 1869, but it was fundamentally a creature of the 1880s. Its growth reflected the sense on the part of workers that their fate was being determined by anonymous market forces that they were incapable of influencing when acting alone.⁴

Earlier efforts at organization had been based on the republican outlook of skilled workers who saw themselves as “partners at the workbench” with their employers, in the words of Samuel Gompers.⁵ The Knights, in contrast, spoke for unskilled workers who had little in common with either skilled mechanics or factory owners, and to whom neither those skilled workers nor factory owners felt much obligation. The 1880s, when this labor agitation peaked, was a decade of exceptional industrial “violence and turbulence,” in the words of John Commons in his seminal *History of Labor in the United States*.⁶ It was a decade when workers engaged in strikes, boycotts, and even sabotage as they sought to regain control of their destinies, or at least their immediate economic circumstances.⁷

This was also a period when the share of income going to the top 1 percent rose sharply. Peter Lindert and Jeffrey Williamson, in their book *Unequal Gains*, document a rise in the top 1 percent share in the United States in the final quarter of the nineteenth century and again after the turn of the century.⁸ In 1851 Alexis de Tocqueville had famously described the United States as “more equal ... than ... any other country of the world ... in any age of which history has preserved remembrance.”⁹ Now, less than fifty years later, the economy was dominated by

Carnegies, Vanderbilts, Morgans, and Rockefellers, robber barons who accumulated vast fortunes through new technologies utilized by mega-corporations that operated unrestrained by anti-trust law or other regulation.

The robber barons were resented for their wealth but also their political influence—for how “they held sway over a helpless democracy,” in the words of the historian T. J. Stiles.¹⁰ In these circumstances, the policy platform of neither principal political party reassured. The Democrats concentrated on limiting the role of government, while the Republicans focused on extending tariff protection to manufacturing firms. Their policy agendas did not adequately address labor’s concerns with wages and factory conditions. Farmers complained that neither party responded adequately to their complaints about railroad rates, interest charges, and deflation.

In response, the People’s Party, informally known as the Populists, was formed in 1891. Supported by southern cotton growers and midwestern wheat farmers, and uneasily allied with labor unions and the advocates of the free coinage of silver from western mining states, the Populists attracted 9 percent of the presidential vote in 1892. In 1896, the Populists fused with the Democrats, nominating William Jennings Bryan, who ran on a platform of “free silver,” designed to deliver inflation rather than deflation, and as a critic of the railroads and banks. Bryan was seen as a man of integrity, although he also had a second career as a real estate shill for the Florida property developer George Merrick. But if Bryan was principled, there was an unsavory racist strand in the positions of some of his supporters.¹¹ Mary Elizabeth Lease, the populist suffragette with whom Bryan campaigned, published a book with the promising title *The Problem of Civilization Solved*, which crudely denounced blacks, Asians, and Jews.¹² In time, what started as a fringe element increasingly dominated the movement. Tom Watson, Bryan’s running mate on the 1896 Populist ticket, began his political career as a supporter of black enfranchisement but moved in racist and nativist directions, attacking blacks and Jews and

embracing white supremacy. As the party's presidential nominee in 1904, he appealed to southern white farmers who had not shared in the prosperity of the period by blaming their black neighbors for their plight.¹³

This sense of insecurity and exclusion also manifested itself in anti-immigrant sentiment. If wages stagnated and men of Scots-Irish descent found themselves competing with recent arrivals from Eastern Europe and Asia, then it was tempting to blame immigration for all that was wrong with the world. Already in 1882 President Chester Arthur had signed the Chinese Exclusion Act, barring the immigration of Chinese laborers in response to pressure from native workers. In justifying the measure, he and others invoked racial stereotypes—Senator John F. Miller of California, where much of the population of Chinese extraction resided, disparaged “machine-like” Chinese workers.¹⁴ In that same year Congress passed a general immigration act that clamped down on the entry of other “undesirables.” In 1907 the U.S. government succeeded in pressuring Japan to limit the issuance of passports to citizens wishing to work in the United States. The roles of nativism, xenophobia, and economic hardship in the development of these restrictive policies remain hard to disentangle. The safest conclusion is that they were bound up together.

Although Bryan was defeated in 1896, the Populists' complaints did not go unheeded. Mainstream politicians had understood since the 1880s that they had to address the concerns of farmers, miners, and workers or risk losing out to more radical political elements. Their response started with the Interstate Commerce Act of 1887, which required railroad rates to be “reasonable and just.” A majority of U.S. states adopted usury laws limiting interest rates or, where those laws already existed, enforced them more vigorously. These laws were passed by state politicians and enforced by local officials directly answerable to the constituents they served.

Beginning in the 1890s, so-called Progressive politicians associated with the two principal parties then pushed through measures designed to restrain the

unbridled power of large corporations and address problems of corruption in politics. The Sherman Act and the Clayton Antitrust Act sought to prevent anticompetitive practices. Muckraking journalists popularized the Progressive cause by exposing corporate abuses and focusing attention on political corruption. Reform-minded politicians in both major parties challenged the political status quo. Teddy Roosevelt campaigned against corruption as New York City police commissioner. Assuming the presidency following the assassination of William McKinley in 1901, he secured additional railway regulation and campaigned against monopolistic practices, earning the sobriquet “trust buster in chief.”¹⁵

President Woodrow Wilson, a political outsider seen as embodying these progressive ideals, then encouraged Congress to address inequality by adopting a graduated income tax, another early demand of the Populists. Wilson’s background as an intellectual and president of Princeton University does not single him out as cut from populist cloth. Yet his rhetoric, in the 1912 campaign and then his inauguration speech, in which he warned that “we,” meaning the people of the United States, had “reared giant machinery which made it impossible that any but those who stood at the levers of control should have a chance to look out for themselves,” echoed classic populist themes.¹⁶

Financial interests opposed to the free coinage of silver remained an insuperable obstacle to the radical monetary proposals of Bryan and others. But here too the Populist critique registered, convincing even supporters of the gold standard that the monetary system, to survive, had to be reformed. While the Gold Standard Act of 1900 definitively shut the door on free silver, it also halved the amount of capital that banks in smaller towns and cities were required to hold. This encouraged bank entry and competition in rural markets where farmers had long complained about monopoly power and the high cost of credit. Congress next established a National Monetary Commission and passed the Federal Reserve Act of 1913 to provide an “elastic currency” responsive to the

needs of the people.¹⁷ This decentralized central bank (notice the juxtaposition of two contradictory adjectives) was an awkward compromise. But the Federal Reserve was tailored this way precisely to address the complaints of Populists and others about the inertness of monetary conditions while at the same time not exciting their suspicion of concentrated financial power.

This may not have been a comprehensive response to the Populists' grievances, but it at least indicated that the politicians were listening. That the United States was one of the few countries with universal (adult, male, and, in practice, mainly white) suffrage meant that the American political system was more responsive than most to popular complaints. There was also the fortuitous fact that the price level stopped falling and that the deflation so harmful to farmers gave way to inflation from the mid-1890s, due to the gold discoveries in the Klondike and Western Australia noted in [Chapter 1](#). Together these factors—policy reform and luck—were enough to contain the third-party threat.

U.S. entry into World War I interrupted politics and economics as usual, but only temporarily. National security concerns were invoked to justify the 1917 immigration act, which imposed a literacy test for immigrants over sixteen years of age and barred “anarchists, or persons who believe in or advocate the overthrow by force or violence of the Government of the United States.” The 1917 act excluded Asians outright, with exceptions for the Japanese, immigration of whom was already restrained, and Filipinos, who were U.S. citizens courtesy of the Spanish-American War.

In what sense Asian immigrants threatened U.S. national security during World War I was not exactly clear. More clarity emerged from the debate over the Immigration Act of 1924. A temporary 1921 act had based quotas on the number of foreign-born people in the country in 1910. But much of the “new immigration” of the last decade of the nineteenth century and first decade of the twentieth was from Southern and Eastern Europe. These new immigrants were disproportionately Catholic, Orthodox, and Jewish. In the contemporary

stereotype, they were clannish, difficult to assimilate, inclined to radical politics, and prone to syndicalism, anarchism, and terrorism. The arrest and conviction in 1921 of Nicola Sacco and Bartolomeo Vanzetti, alleged followers of the Italian anarchist and advocate of revolutionary violence Luigi Galleani, encouraged this prejudice. Pushing back the date on which quotas were based to 1890, as provided for by the 1924 act, served to better preserve the ethnically and religiously homogeneous United States of the nineteenth century, or an idealized version of it anyway. Barring Asian immigrants worked in the same direction.

Outside New England, Sacco and Vanzetti's home, nativism found reflection in the Ku Klux Klan, membership in which peaked in the 1920s. The Klan attacked immigrants, Catholics, and Jews as much as black Americans. It deplored criminality, immorality, and so-called non-Protestant values. The 1920s Klan was more urban, northern, and western than its nineteenth-century predecessor. Membership responded to the desire of lower- and middle-class white workers to protect their economic status from encroachment by migrants from Eastern Europe and the rural South. Members were drawn from "a backward segment of American society, one trapped by economic insecurity, dying small-town ways, and an inability to adjust psychologically to the 'modern age,'" in the words of the historian Leonard Moore. "The Klan," Moore concludes, "appears to have acted as a kind of interest group for the average white Protestant who believed that his values should remain dominant" in an America increasingly populated by other groups.¹⁸

Klan members won political office in Indiana, Colorado, and Oregon. They worked through established political parties—both of them.¹⁹ But although membership grew to an estimated 4 million, the Klan never became a dominant force in American politics. Again, economic conditions helped stem the tide. The Roaring Twenties was a time of wage gains for the majority of Americans. Unemployment had fallen to barely 3 percent by the end of the decade. Relative gains still mattered, to be sure: some could complain that they were not doing as

well as others, and after 1920 the income share of the top 1 percent took another jump up.²⁰ But the fact that most people were doing better in absolute terms meant that economic dissatisfaction was limited. Not every household had a radio, a phonograph, or a Model A Ford, but a growing number did.

Support for an open, market-based economy was then undermined by the high unemployment and social distress that developed with the onset of the Great Depression. Foreign trade was an immediate casualty. When Congress had debated the McKinley Tariff in 1890, the United States was an exporter of agricultural commodities and an importer of industrial goods. Tariffs protected American manufacturing while burdening farmers and consumers of imported products. That was one reason the Populists, fundamentally an agrarian movement, broke decisively with McKinley and the Republicans. Over the next quarter century, however, the United States developed into the leading exporter of manufactures by harnessing its natural resources to an industrial complex that depended on fuel- and raw-material-using mass-production methods. By the 1920s, tariff protection was a matter of less urgency to U.S. manufacturers, who were now well positioned to withstand foreign competition, than to the wheat farmers of the Midwest, who found themselves suffering from low prices due to the expansion of production in Canada, Australia, and Argentina.

The movement that culminated in 1930 in the Smoot-Hawley Tariff Act therefore originated as an effort to support the farmer, the expansion of acreage under cultivation in other countries that now depressed world market prices having been stimulated by World War I. But the depression that set in during the second half of 1929 devastated industry as much as agriculture. There was a temptation to point to imports as aggravating or even causing those difficulties and to jump on the protectionist bandwagon. Thus, the tariff bill that emerged from Congress and was signed by President Herbert Hoover in 1930 lacked a clear economic logic: it raised tariffs on agricultural and industrial products alike. Rather than favoring one sector over another, the main thing it did was

close off the United States from trade with the rest of the world.²¹

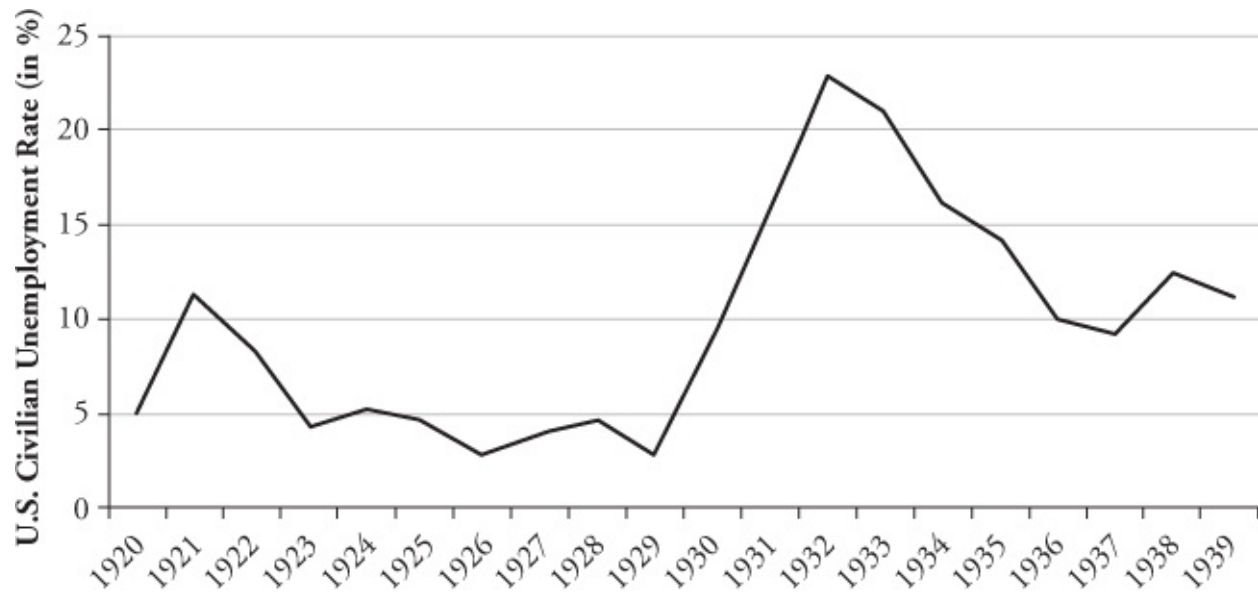


Figure 2.1 U.S. Civilian Unemployment Rate, 1920–1939

Source: Susan Carter, “Labor Force, Employment, and Unemployment: 1890–1990.” Table Ba470-477 in *Historical Statistics of the United States, Earliest Times to the Present: Millennial Edition*, ed Susan Carter, Scott Gartner, Michael Haines, Alan Olmstead, Richard Sutch, and Gavin Wright (Cambridge University Press, 2006), <http://dx.doi.org/10.1017/ISBN-9780511132971.Ba340-651>.

An unemployment rate of nearly 25 percent, like that the United States experienced in the depths of the Great Depression, is fertile ground for anti-immigrant hysteria, isolationist rhetoric, and populist reaction. Other immigrants already having been barred, nativist sentiment now focused on Mexicans working in the United States, who were accused of stealing jobs from native-born workers. Inflated estimates of the number of undocumented immigrants were floated. The Federal Immigration Service was mobilized by Secretary of Labor William N. Doak, a Hoover appointee and former vice president of the Brotherhood of Railroad Trainmen, to make it look as if the administration was doing something about the immigration and unemployment problems. Officers

rounded up illegal immigrants using strong-arm tactics designed to impress even legal residents who “looked Mexican” with the idea that they were at risk of being taken into custody, or worse, and consequently to encourage them to leave the country.²²

A variety of political opportunists sought to capitalize on this hysteria. The most notorious was Huey Long, who served on the Louisiana State Railroad Commission and then as governor before moving to the U.S. Senate in 1933. At each stage Long positioned himself as an opponent of concentrated economic power, be it the railways, the banks, or the oil and utility companies, and as an ally of the common people.²³ He relied on mass rallies and whistle-stop campaign tactics in the manner of William Jennings Bryan, and doled out political and economic favors to attract a loyal clientele. His rhetoric and methods were Trump-like. As Long himself once said, “I used to get things done by saying please. Now I dynamite ’em out of my path.”²⁴ For political advice Long relied on family rather than political professionals. As one supporter put it, “Others had power in their organization, but [Huey] had power in himself.” That power was applied in the form of carrots, through the extension of patronage, and sticks, in other words by threats, often veiled but sometimes bordering on “outright thuggery.”²⁵ The notoriously thin-skinned Long traded on criticism of the press—he reviled the New Orleans-based dailies as self-serving tellers of untruths. “You can never tell when those newspapers are sincere. They ain’t [got] an honest bone in their body. They don’t mind telling an untruth.”²⁶ He went so far as to establish his own newspaper, the *Louisiana Progress* (renamed the *American Progress* when he ascended the national stage), which heaped abuse on the New Orleans dailies, and to push a punitive 15 percent tax on the advertising revenues of the dailies through the state legislature in 1934.²⁷

Bankers, as one might expect, were the other prominent targets of Long and 1930s populists generally. Financiers had profited handsomely from the excesses of the 1920s, and they were deeply implicated in the crisis that now followed.

That taxpayer funds, disbursed by the Reconstruction Finance Corporation, were used to prop up the banks hardly seemed fair and right.²⁸ All this made the banks obvious targets for politicians seeking to whip up populist outrage, an angle on which Long effectively capitalized. He appealed to working-class voters hit by the Depression with a “Share Our Wealth” program focused on taxing the wealthy, starting with wealthy financiers, and redistributing the proceeds to the poor and homeless in the manner of a guaranteed income scheme. Economists pointed out that the sums did not add up, but the details were not of the essence.

In 1933 Long broke with FDR on the grounds that the New Deal was too friendly to finance and business and insufficiently redistributive. The reality was probably that the New Deal was too successful at placating Long’s core constituency. Were the New Deal not discredited, it would have been an obstacle to his plan of mounting a primary challenge to FDR in 1936.²⁹

Long’s leading surrogate was the radio preacher Father Charles Coughlin of Royal Oak, Michigan. Coughlin was early to understand the power of radio in mobilizing a mass movement. He had taken to the medium in 1926 to protest the burning of crosses on the grounds of his church by the Ku Klux Klan but by 1930 was commenting widely on politics. Advocating social and economic justice for the common man, Coughlin, like Long, supported FDR in the 1932 presidential campaign. He supported the New Deal in 1933. But by 1934 he had turned against the program as too accommodating of the “money changers” and against the president as too willing to compromise.³⁰

Coughlin’s increasingly radical proposals started with direct government control of the Federal Reserve System. (His plan to remove private bankers from the boards of Federal Reserve Banks found an echo in suggestions by Vermont senator Bernie Sanders in the 2016 primary campaign.) They then veered into advocating the free coinage of silver, so as to offset the deflationary effects of the gold standard, and nationalizing the railroads, echoing two long-standing Populist themes, together with guaranteed work and confiscatory wealth

taxation. Coughlin praised Hitler and Mussolini for forcefully enlisting industry and finance in advancing their nationalist policy agendas—in contrast, by implication, to FDR. From there it was a short step to anti-Semitic and quasi-fascist rhetoric—the so-called Judeo-Bolshevik threat was one of his favorite tropes—and to advocating a foreign policy of neutrality toward Europe and isolationism for the United States.

By 1934 Coughlin was reaching tens of millions of listeners captivated by his message of hope, change, and elite conspiracy. In 1935, at the height of his popularity, he was receiving more mail than FDR. As in the case of the radio and television hosts Rush Limbaugh and Sean Hannity more recently, it is hard to pinpoint his impact on politics. But by 1936 his statements had grown increasingly extreme and erratic, causing many of his earlier followers to abandon him. That year a Gallup Poll asked respondents whether Coughlin's endorsement would make them more likely to vote for or against a candidate. By this point, Democrats, Republicans, and self-identified Socialists all were more inclined to answer “against.”^{[31](#)}

The other factor undercutting support for Coughlin's brand of populism was evidence that the political establishment was seeking to address the concerns of the insecure and excluded. FDR directly fostered this impression: his “nothing to fear but fear itself” message spoke to Americans' heightened sense of insecurity in terms they could understand.^{[32](#)} His use of radio to speak directly to the people took a page out of the populist playbook. More generally, his rhetoric was designed to show that he was allied with the common man against business and finance, as in his first inaugural address (“The money changers have fled from their high seats in the temple of our civilization. ... The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit”) and his famous 1936 Madison Square Garden speech (“We had to struggle with the old enemies of peace—business and financial monopoly. ... They are unanimous in their hate for me—and I welcome their

hatred”).

Concretely, the New Deal spoke to the concerns of those who had not shared in the prosperity of the 1920s and were hit hardest by the crisis of the 1930s. The federal government’s administrative and organizational capacity, extended during World War I, was now actively put to work. The Agricultural Adjustment Act addressed farmers’ concerns with low crop prices. The Rural Electrification Administration and Tennessee Valley Authority brought power to deprived communities, addressing complaints of exclusion. The Federal Emergency Relief Administration provided grants and loans to aid the unemployed.³³ The Wagner Act obliged firms to bargain with unions selected by a majority of employees. Unemployment insurance and Social Security addressed the insecurity of workers in the transition to the twentieth-century industrial age. Roosevelt’s “soak the rich” tax proposal in the summer of 1935 may have been designed to “steal Long’s thunder” and was ultimately pared back by Congress, but it was at least a token effort to address long-standing popular concerns over inequality.³⁴

FDR’s decision to abandon the gold standard in April 1933 responded to a more radical proposal by Senator Elmer Thomas of Oklahoma, advanced on behalf of an inflationist bloc of congressmen representing farmers and small businessmen bearing the brunt of deflation and labor unionists who blamed the monetary regime for unemployment. Thomas’s measure would have compelled the Federal Reserve System to issue an additional \$2.4 billion of banknotes and the president to devalue the dollar against gold. Roosevelt suggested an amendment limited to permission to devalue the dollar, which he then proceeded to do. The result was sharp upward pressure on prices and production, relieving the plight of the farmers and inaugurating an employment recovery. Adherents to gold standard orthodoxy were horrified, but the policy, or more precisely its effects, helped to solidify popular support for the political mainstream.

Finally, FDR and the New Dealers took visible steps to address problems in

the banking and financial system. Banking crises, it will surprise no one, breed resentment of bankers. They foster support for populist politicians who promise to suppress financial excesses and restore the balance between Main Street and Wall Street. The political establishment now visibly sought to address these concerns. The Pecora Investigation of the U.S. Senate Committee on Banking and Currency called the bankers on the carpet. The Glass-Steagall Act forced commercial banks to divest themselves of their risky securities-underwriting activities, while the Securities Exchange Act enhanced the transparency of financial markets. This may not have been the best imaginable regulatory response, but it was enough to bequeath a long period of banking and financial stability, thereby attenuating the link between the banking crisis and populism.

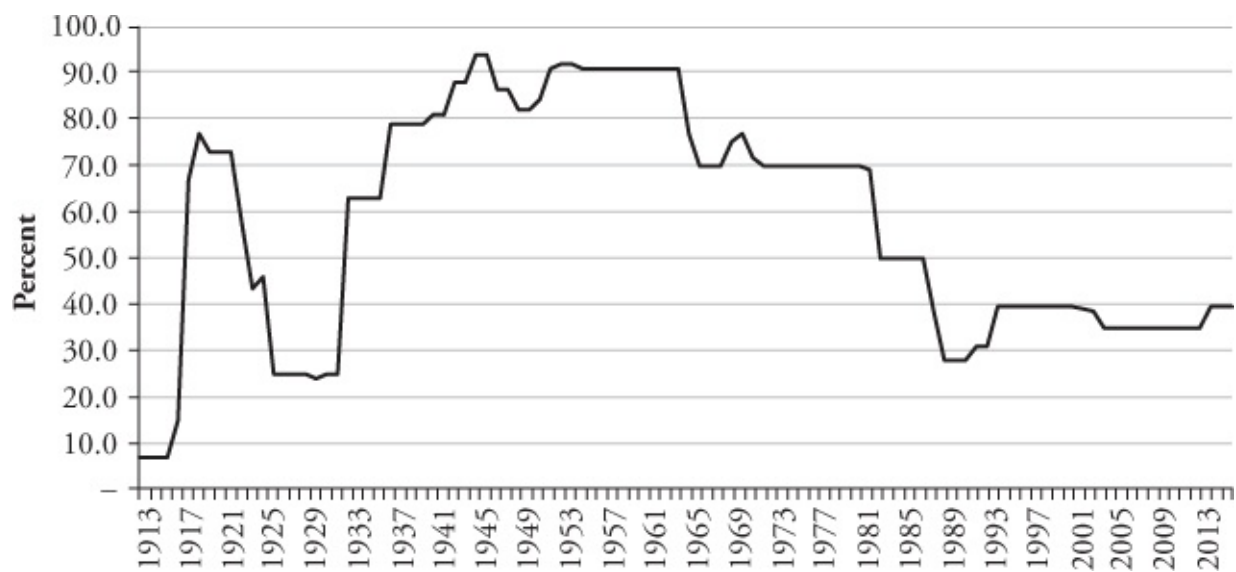


Figure 2.2 Top Marginal Tax Rates on Individual Incomes, United States, 1913–2015

Source: Internal Revenue Service, Statistics of Income Division, Historical Table 23.

World War II was then followed by further expansion of the welfare state, in the United States as in other countries. The share of the top 1 percent of the income distribution fell, relative to 1920s levels, due to increases in top tax rates,

a legacy of the 1930s and especially the war.³⁵ America's position as an industrial leader, reflecting electrification, the reorganization of factories in the interwar period, and then wartime advances in mass production, generated an abundance of good manufacturing jobs. Economic growth fostered a sense of opportunity, while access to education through the GI Bill enhanced socioeconomic mobility. Against the backdrop of a buoyant world economy, employers saw keeping the assembly line running as even more valuable than before. Manufacturing firms prioritized harmonious labor relations, which they sought to secure by sharing their rents more equitably with their workers. These capsule observations may paint a somewhat one-dimensional picture of the postwar economic and social climate, but they serve to highlight the contrast with both the late nineteenth century and the 1920s, which is what matters here.³⁶

This was not a promising economic climate for demagoguery. On the other hand, the international political situation, and specifically the Cold War, remained conducive. In particular they were conducive to the rise of Joseph McCarthy. McCarthy campaigned against the subversive "elites," a term that featured prominently in his 1950 Wheeling, West Virginia, speech warning that there were closet Communists in the State Department. Like Donald Trump, he was not a slave to the facts. And like Trump, he was a skilled practitioner of the politics of fear.³⁷ A long-standing interpretation of McCarthyism sees the senator from Wisconsin not simply as seeking to situate himself as an opponent of the foreign Communist threat and its domestic fifth column but also as capitalizing on yet another revolt of the masses, this one driven by the status anxiety of white working-class Americans who feared losing their jobs and socioeconomic position to blacks who migrated north and west during the war and to other competing groups. Working-class whites were therefore receptive a kind of distorted midcentury populism championing nationalism and traditional values while ostracizing Jews, intellectuals, and others as Communist

sympathizers. They were sympathetic to McCarthyism, in other words.

Subsequent scholarship has qualified this interpretation. Historians Michael Rogin and David Oshinsky established that working-class Wisconsin voters were not, in fact, disproportionately inclined toward McCarthy.³⁸ Status anxiety there may have been, but it did not dominate American politics in this period, when inequality was falling and growth was lifting all boats. Such status anxiety as existed did not give rise to legions of McCarthys, or prevent Tailgunner Joe himself from crashing and burning. Concern with relative economic status was less when absolute economic status was rising. Resentment against the elites in Washington, D.C., which McCarthy sought to excite, was correspondingly less. Fear of Moscow, of a domestic fifth column, and of the “other” generally there may have been, but that fear was a less potent political force in what was a relatively positive economic environment. To be sure, Barry Goldwater is famous for asserting that “extremism in the defense of freedom is no vice.” Richard Nixon never entirely put his association with McCarthy behind him. But the political center held.

Historians disagree about when America’s image as the land of opportunity, as inclusive, as a champion of free trade, and as a steward of global peace and security began to fray. On the country’s renewed isolationist tendencies, some cite the trauma of the Vietnam War, others America’s troubled involvement in Iraq. To explain opposition to immigration, some point to 9/11 and Islamophobia, others to slowing growth, rising inequality, and the stagnation of working-class wages. History suggests a role for all these factors—for failed foreign interventions, for attacks on the homeland, for widening income inequality, and for slower economic growth—but above all for insecurity and the sense of having been left behind.

In hindsight, the only surprise, given this confluence of forces, is that it took so long for a populist reaction to materialize.



Luddites and Laborers

economists disagree about whether technical change or globalization is the main driver of inequality and insecurity. They similarly disagree about the remedies. Some say that society has an obligation to compensate the losers through welfare programs, unemployment insurance, or a basic income, and that politicians would be well advised to do so on both social-stability and self-preservation grounds. Others, seeing globalization as the problem, advocate tariffs, controls on capital flows, and limits on immigration. Still others recommend investing in education and training to ensure that workers can compete in a technologically dynamic, globalized world.

Societies have been grappling with these issues ever since the Industrial Revolution and the first age of globalization in the nineteenth century. Livelihoods and expectations then were already being disrupted by technological change and import competition. Already then, there was a backlash against unfettered markets and free foreign competition, and there were calls for government to restrain these disruptive forces. Recent complaints about the uneven and unfair effects of globalization and technical change, and anger toward government for its failure to do more about them, are far from new.

A classic case in point is the early nineteenth-century English hand-loom weavers who saw themselves being replaced by less-skilled workers operating stocking frames and power looms, and who mobilized against this mechanization and low-wage competition.¹ Textiles were at the epicenter of the process of technical change that we call the Industrial Revolution. Modern

estimates are that cotton textiles accounted for fully a quarter of all productivity growth in Britain between 1780 and 1860.² This made for big changes in prices and work organization. It is not surprising that the hand-loom weavers saw their livelihoods as jeopardized by technological forces beyond their control. Nor is it surprising that the first violent acts of the Luddites, as this group came to be known, coincided with the Napoleonic Wars, which depressed economic conditions and dimmed the prospects for alternative employment.³

Agriculture also contributed importantly to economic growth in the early nineteenth century, although the point tends to be missed in discussions of the *Industrial* Revolution. The British economy was still heavily agrarian, and technical change in farming was rapid. But, despite this, the real wages of farm laborers rose only slowly from eighteenth-century levels, since many of the gains from increased productivity went to landlords and the owners of farm machinery. Indeed, there is evidence, as in [Figure 3.1](#), that for a time at least their wages in fact declined. Small farmers who relied on the open fields surrounding their villages to gather firewood and pasture their stock were denied access when that acreage was privatized by Parliamentary edict. Under Parliamentary enclosure, the privatization and redistribution of landholdings could be done quickly. Since it could proceed with the approval of the holders of just four-fifths of the land in question, there were complaints that large landlords were expropriating smallholders. The process, the latter complained, had an unseemly political aspect. These complaints may have been exaggerated.⁴ But the bottom line is that farm laborers were left wholly dependent on their labor power.

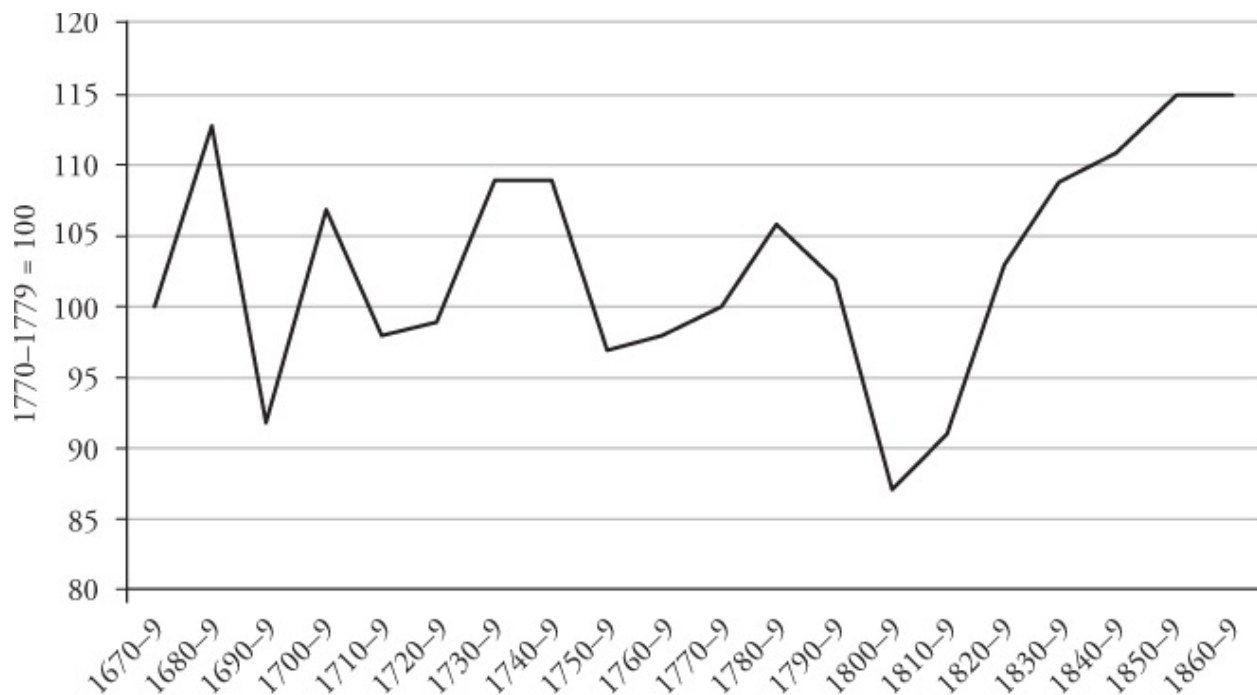


Figure 3.1 Farm Laborers' Real Wages, Southeast England, 1670–1870

Source: Gregory Clark, “Farm Wages and Living Standards in the Industrial Revolution: England, 1670–1869,” *Economic History Review* 54 (2001): 477–505. doi:10.1111/1468-0289.00200.

Their reaction was the Swing Riots, an uprising of farm laborers that began in Kent in 1830. “Swing” or “Captain Swing” was the signature on the threatening letters sent to farmers and magistrates, evidently an allusion to the swinging flail used in hand threshing. The protesters focused their destructive energy on labor-displacing threshing machines but also attacked the cattle, haystacks, and barns of landowners using the new equipment.⁵

The reaction of farm labor came later than in textiles, since the Napoleonic Wars, while disruptive to industry, benefited agriculture temporarily. Lack of access to imported foodstuffs pushed up crop prices, bettering the prospects of farmers and farmworkers. But those improved conditions did not last. Admittedly, modern estimates of real wages suggest more than a modicum of exaggeration in contemporary warnings, like that of Lord Carnarvon, that the

English farm laborer had been “reduced to a plight more abject than that of any race in Europe.”⁶ What had been reduced were the laborer’s income security, his employment security, and his future security: income security because households that had once received income from their labor and land now depended entirely on the former; employment security because hiring contracts ran for increasingly short periods with the commercialization of agriculture and the growing social and economic gulf between landowner and farm laborer; and future security because threshing machines augured the development of even more ingenious labor-saving machinery.

To refer to these popular rebellions as populist would be stretching the term. But they had in common with populist movements that they were rebellions against the economic and political establishment. Farm laborers in southern England, like the hand-loom weavers before them, were responding to the same heightened sense of insecurity and perceived lack of alternatives that animate populists in other times and places. These uprisings may have had a different character, lacking the charismatic leader and nativist tendencies of archetypical populist movements. But they are a reminder that violent reactions against the dislocations of economic change and the deteriorating economic status of skilled workers are far from uniquely modern phenomena.

Counterfactually, one can imagine these protests spreading and producing a broad-based uprising like that in France, which toppled the landowner-dominated ancien régime. Like the French revolutionaries, the Luddites and Swing Rioters were motivated by political as well as economic concerns.⁷ In the English case, however, the reaction was contained. The army was deployed, and some sixty Luddites were prosecuted for violent crimes in a mass trial in York in 1813. The police powers of the state were again brought to bear against the Swing Rioters, nineteen of whom were hanged, six hundred of whom were imprisoned, and five hundred of whom were transported to Australia.

That this backlash failed to spread further reflected two related facts in

addition to this show of force by the state. First, real wages, which had fallen economy-wide between 1780 and 1830, began rising as industrialization spread, increasing the demand for both more- and less-skilled labor. Second, there was serious discussion in establishment circles about how best to address the protestors' concerns. That discussion took place under the heading of the "Machinery Question," most elaborately posed by David Ricardo. Ricardo was a stock-market speculator, a parliamentarian, and probably the most influential political economist (we would say simply economist) of his day. In a chapter entitled "On Machinery" added to the third edition of his *Principles of Political Economy and Taxation*, he addressed the "influence of machinery on the interests of different classes of society" and the "opinion entertained by the laboring class, that the employment of machinery is frequently detrimental to their interests."⁸ While continuing to maintain, as before, that the introduction of machinery benefited the capitalists and landlords who used it and the industrialists and skilled mechanics who made it, Ricardo recanted his earlier assertion that mechanization necessarily benefited workers as well, because they would enjoy a lower cost of living—as he put it, they would "command an additional quantity of comforts and enjoyments" out of the same "money income." Instead he now acknowledged that displaced workers might have their skills rendered obsolete and no longer enjoy the same money income and purchasing power as before.

Ricardo did not take this as an argument for resisting mechanization, which promised to raise productivity and national income overall. But his observation that there would be losers as well as winners implied that society might have to compensate the losers in order to avoid a negative reaction.

In terms of action, one concrete step was the Reform Act of 1832, which enhanced the political voice of the middle classes. It consolidated and eliminated so-called pocket boroughs, where a single landlord dominated. It reduced the property requirement for voting, enlarging the electorate by half. Although the

property requirement remained non-negligible and the franchise was still far from universal, the 1832 reform at least gave better-off commoners the sense that they could advance their interests through established political channels.

By splitting labor into an aspiring middle class with enough property to vote and a working class that lacked that prerequisite, the 1832 reform also gave rise to the Chartist movement. Chartism was “the first (and arguably still the greatest) mass political movement in industrial Britain.”⁹ It took its name from the People’s Charter, a pamphlet circulated in 1838. The Chartists campaigned for greater political voice for the working class and agitated against wage cuts and insecurity of employment. As one Chartist leader, Joseph Rayner Stephens, a former Methodist minister, put it, the movement focused on “knife and fork ... bread and cheese question[s].”

Chartism was a moderate political movement, reflecting the fact that the Chartists’ objections to the prevailing political system were themselves moderate. Its members were not populist, as the term is utilized here. They simply sought to enhance the access of working-class people to that political system. They pushed for the vote for every adult male, including urban, industrial workers with little or no property. Indirectly they inspired what became the Second Reform Act, in 1867, which enfranchised all male heads of household and doubled the size of the electorate. Another half century would have to pass before the creation of the Labour Party, but disaffected workers already had grounds for thinking that they could pursue their grievances by normal political means. Support for the country’s political institutions was solidified, and Britain, in contrast to other European countries, such as France, was able to head off a more violent reaction.

The most straightforward way of compensating those whose incomes were eroded by technological change was of course through direct income support. Here English society actually did less over time, despite growing need. The rise of commercial agriculture and urban employment eroded traditional social

support systems at the parish and village levels, and the working classes suffered the consequences. “In England the Industrial Revolution reversed the trend toward a more extensive and more lenient public protection of those who became victims of economic fortune,” as one historian put it. “The liberal elements that came to power in the late eighteenth and early nineteenth centuries championed an industrial society based on individualistic principles.”¹⁰

When a Royal Commission on the Operation of the Poor Laws was appointed in the aftermath of the Swing Riots, its members were concerned less with repairing the fabric of society than with limiting the burden on themselves and their kind.¹¹ Under the Poor Law in existence since the sixteenth century, the earnings of impoverished farm workers had been topped up by public support administered by local Poor Law guardians.¹² This had the effect of shifting the costs from farmers to others insofar as all property owners were taxed to finance rural relief. With industrialization, those others became more numerous and influential—and increasingly vocal critics of the system. The Poor Law was also perceived as subject to abuse by people from outside the parish, who were an additional burden on local ratepayers and therefore a threat to existing recipients of relief. As early as 1662, this had led Parliament to adopt a Settlement Act allowing parishes to remove within forty days of their arrival any newcomers likely to end up on the relief rolls.¹³

These were the problems on which the Royal Commission on the Operation of the Poor Laws now focused. Under its proposals, public support would be provided exclusively in workhouses under conditions tolerable only to the truly indigent. This punitive restriction was designed to limit abuse of the system and remove the incentive to migrate to receive relief.

Although some of the commission’s detailed recommendations were not incorporated into the Act Amending the Laws Relating to the Poor in 1834, they guided the decisions of the independent Poor Law Commission established by that act. Relief was still administered by local guardians and financed by a tax on

local property owners, but it was now subject to uniform rules. The commission instructed small parishes lacking the resources needed to construct a workhouse to confederate with other parishes. It allowed for continued outdoor relief (assistance provided without requiring the recipient to enter an institution) given slow progress in constructing workhouses, but only if the recipients were set to hard work. Subsequent regulations restricted the provision of outdoor relief still further. In many respects the new system was less humane than its pre-1834 predecessor, as depicted by Charles Dickens in *Oliver Twist*.

This system was designed to be stigmatizing, and it was. The share of the population receiving relief declined as people went to greater lengths to avoid it. Relief recipients were now mainly individuals with serious medical conditions, and a growing share of relief expenditure was for health care, leaving the able-bodied to fend for themselves. Workers therefore clubbed together in benevolent societies and trade union associations to insure against sickness and lack of work.¹⁴

The question is why English society didn't go further to address the concerns of the working class, and why its failure to do so didn't provoke a political backlash in this period of rapid technical change and rising trade. The answer, simply put, is that the period after 1830, and especially after 1850, was marked by improvements in living standards and employment opportunities. There were no disruptions to commerce as severe as those of the Napoleonic Wars. The gap between the wages of skilled and unskilled workers peaked around 1850 and then declined through the end of the century, as ongoing industrialization created employment opportunities for less-skilled workers, many at higher wages.¹⁵ Although Britain now had industrial rivals such as Germany and the United States, it remained the single largest exporter of manufactured goods as late as 1913. Exports were produced by an urban industrial sector that was a reliable source of jobs paying better than those in the countryside. There was continuing concern, to be sure, about the underclass of casual labor, individuals only loosely

connected to the labor force, and about the conditions of work. But with a rising tide lifting most boats, the backlash against globalization and technical change was contained.

Foreign competition was of special concern in older industries producing clocks and watches, straw hats and bonnets, boots and shoes, gloves, silks and ribbons, woolens and worsteds, and in shipping and iron, all sectors now facing pressure from German, French, and Belgian producers. The industries in question were conveniently concentrated, from the point of view of organization, in a handful of Midland cities: Macclesfield, Coventry, Spitalfields, Preston, Derby, Nottingham, Bradford, Birmingham, and Manchester. Producers complained that French firms enjoyed unduly favorable access to British markets under the 1860 Cobden-Chevalier Treaty. They complained that foreign firms received export bounties—government subsidies—with no analog in British law. A coalition of aggrieved producers formed the Association of the Revivors of British Industry in 1869 with the goal of negotiating a fairer trade agreement. They mobilized their employees to petition Parliament for a remodeling of the customs tariff. Other associations, like the Reciprocity Free Trade Association and the National Fair Trade League, similarly sought to organize manufacturing interests.

This movement is sometimes seen as a revolt against free trade by workers displaced by import competition and disappointed by government's failure to do much about it. But in fact this protectionist agitation was more an elite project of proprietors in old industries than a mass movement of displaced workers, since many of the latter found new opportunities in expanding sectors. To be sure, foreign competition would continue to intensify. In time, the United States would emerge as an industrial power of the first rank. Trade and transport costs would continue to fall with the advent of steel-hulled ships powered by powerful engines and dual-screw propellers, whose effect was not unlike that of containerization after World War II. But at this point, in the late 1860s and early

1870s, the most intense effects were yet to be felt.

Owners of firms producing woollens, worsteds, and iron products felt more strongly because they had sector-specific investments to protect. But in the absence of a spontaneous mass movement, they had to organize to advance their case. They hired promoters to convene meetings where workers were sold the case for protection. Attendees were urged to participate in the Trades Union Congress of affiliated unions in London in 1881 and support a resolution endorsing the so-called fair trade cause. It soon became known that the promoters had offered to pay the expenses of sympathetic workers. News of their attempts to pack the congress highlighted the divergent interests of the wealthy organizers of the Fair Trade League and the working-class rank and file. In response, the congress adopted a motion that “no one shall be eligible as a delegate ... whose expenses are paid by private individuals, or any other institution not a bona-fide trade union or trades council.” This more or less put an end to the matter.¹⁶

Outside the Midlands, the sugar-refining industry was the leading center of anti-trade agitation. Foreign governments provided bounties to producers of refined sugar, which worked to the disadvantage of British refiners, whose number fell from more than thirty in 1864 to a mere handful a decade later.¹⁷ This situation was also unwelcome for that handful of laborers whose livelihood was unloading raw sugar from the West Indies on London’s docks. When the promoters of the fair trade movement were ejected from the meeting of the Trades Union Congress in 1881, their next stop was the East End, where they agitated among the dockworkers.¹⁸

But what was unfavorable for workers tied to the sugar trade was favorable for others required to spend less to sweeten their tea. “Sugar,” as Gladstone put it in 1889, “is the article second only to corn among the comforts of the population.”¹⁹ As a result, the sugar-coated anti-bounty movement attracted only limited support.

If there was as yet limited popular support for a more restrictive trade policy, there was nonetheless no shortage of opportunistic politicians seeking to nurture it. When Conservative candidates performed poorly in the 1880 general election, party leaders such as Lord Randolph Churchill embraced protection as an issue on which to revive the party's fortunes. They saw trade restrictions that promised to prevent the loss of manufacturing jobs in older industries where wages were high and trade unions were well established as a device for attracting the support of union members. As Churchill put it, "The new unionism which goes for eight hours has almost entirely broken down the old unionism which was in mortal hostility to Toryism. Eight hours will I believe carry with it as a necessary consequence on some increased cost of production a return towards protection."²⁰ Churchill observed that competition from countries where wages were lower was now greater than in the 1860s and 1870s. To the extent that these trends were a source of anxiety for workers in older industries, they provided an opening for the Conservative Party.

Conservative politicians argued further that protection would strengthen the national security. Preferences for foodstuffs imported from the Commonwealth and Empire would draw the so-called White Dominions together, creating a united front against potentially hostile foreigners. Bismarck's success in creating a powerful German empire on the foundation of the Zollverein, or customs union, was both an example to follow and a challenge to be met.

While this pro-tariff agitation met with some success, Churchill was only temporarily its standard-bearer. With his health in decline, he was succeeded in the 1890s by Joseph Chamberlain.²¹ Where Churchill was a patrician, Chamberlain had worked from the age of eighteen in his uncle's business, Nettlefold and Chamberlain, the leading English manufacturer of metal screws. He was the first industrialist to scale the highest reaches of British politics. His political start was as mayor of Birmingham, a center of the steel industry. His reputation for employing the blunt tactics of the hardscrabble businessman and

successful local politician stayed with him throughout his career.

Chamberlain started political life as a free trader but changed his tune in response to the complaints about German competition of his fellow Birmingham businessmen. By the 1890s he had come to see tariff protection as a way of reviving British industry while not incidentally advancing his own political prospects. Like Churchill, he saw protection as useful for attracting the support of workers fearful of being displaced by import competition, adopting “tariff reform means work for all” as the straightforward slogan of his movement.²² Aware that other politicians were similarly courting working-class voters, Chamberlain supported the Workman’s Compensation Act of 1897, which partly indemnified people injured on the job. Tariff revenues, he observed, could be used to fund social reforms, not just workman’s compensation but also old-age pensions, that appealed to working-class political constituencies, not unlike Bismarck’s strategy in Germany.²³ The Tariff Reform League, the pressure group of Chamberlain’s followers, is said to have been less opposed to large-scale government expenditure “than any other political group in Edwardian Britain.”²⁴ Indeed, it may have favored lavish government expenditure precisely because doing so strengthened the revenue-raising rationale for protection. Where others regarded any discussion of taxes on imported foodstuffs as politically toxic, Chamberlain, when asked in 1894 by a fellow member of the Royal Commission on the Aged Poor how he would fund a pension scheme, replied, “By an import duty on wheat ... Nothing that I have ever said or written would prevent me from advocating a tax on corn for a specific purpose.”²⁵

Chamberlain was “the most dynamic politician of late Victorian and early Edwardian Britain,” a forceful platform speaker and a political loose cannon in the populist mold.²⁶ He was more comfortable tilting at windmills than with the confines of office, however—not unlike Donald Trump, it is tempting to add. Nonetheless, when the Conservative leader Lord Salisbury offered him the post of secretary of state for the colonies in 1895 on the grounds that he posed less

danger to the government inside than out, Chamberlain accepted. He used the post as a bully pulpit to advocate tariffs with preferences for the empire, with the goal of creating an imperial federation, complete with imperial parliament, to counter the rise of Germany and the United States.²⁷

Chamberlain's invocation of an imperial customs union also had a racist strand, reflecting the "Anglo-Saxon imperialism" of his friend and political consort, the Liberal member of Parliament and author Sir Charles Dilke. A Radical, or English progressive, on domestic matters, Dilke also believed in manifest "Saxon" destiny and the innate superiority of the "Anglo Saxon race."²⁸ In 1897, on his installation as lord rector of Glasgow University, Chamberlain echoed his friend's language, portraying empire as "fulfilling the manifest duty of our race."²⁹

Effectively, tariff reform divided Britain along the same lines as Brexit in 2016. It pitted industry against finance, the merchant banks that exported financial services understandably opposing Chamberlain's plan. It set cosmopolitan London against the regions. It spoke to Britons yearning, in an increasingly diverse economic and political world, for the unity of an imagined English race encompassing not just the British Isles but also the so-called settler colonies. It was regarded skeptically by the educated elite.

Given the ranks from which his political colleagues were drawn, Chamberlain's campaign met with less than enthusiastic cabinet support. He therefore adopted the populist tactic of speaking directly to the people. Using tariffs to bring the Empire together, he declaimed at Birmingham Town Hall, the scene of his early political triumphs, was the only way for Britons to "recover our freedom, resume the power of negotiation and retaliation whenever our own interests or our relations between our Colonies and ourselves are threatened by other people."³⁰ It was a way of regaining control of the nation's fate. It was a way of countering predatory foreign competition. And it was an expression of the will of the people.

In the event, this vaulting political rhetoric convinced true believers but few others. It didn't help that Chamberlain was unschooled in economics. He preferred his own statistics to those of the Board of Trade and his own advisors. His protectionist apostasy horrified his Liberal colleagues, free traders all, who dismissed his arguments as "reckless" and "criminal."³¹

Chamberlain's was still not a winning coalition, in other words, given Britain's free trade tradition and the working-class belief that tariffs meant higher food prices. But if his campaign was less than fully successful, it nevertheless demanded a political response. If protectionism was to be rejected, it would be necessary to demonstrate that the social reforms to which Chamberlain linked it could be funded by other means. In this way Chamberlain's proposals empowered the left-leaning, social-reform-oriented wing of the Liberal Party.

In particular, they empowered David Lloyd George when he was appointed Chancellor of the Exchequer in the government of H. H. Asquith in 1908. From a rural background, Lloyd George may not have been intimately familiar with the condition of the urban working class, but he was an astute politician.³² Among his first acts, tailored to appeal to working-class constituencies, was to push through a second reading of the Old Age Pensions Bill, now to be funded, given Liberal opposition to import duties, by a tax on land payable on sale or death of the owner. Other Liberal reforms completed during his chancellorship included state stipends for the sick and infirm and the National Insurance Act of 1911, which laid the basis for state-supported health and unemployment insurance.

This was less an attempt to preempt labor-led opposition to economic openness, opposition that remained largely latent in the event, than to prevent the opponents of free trade, principally businessmen in import-competing sectors, from engaging their workers in the campaign against foreign competition. The poor physical condition of many of the recruits enlisted to fight in the Boer War

in 1899, in addition, was an eye-opener for the political class. It created genuine concern over working-class living standards and heightened fears of a political reaction.³³ There was also support for the view that strategic intervention to reorganize the labor market would enhance the efficiency of British industry, thereby beating back competition from Germany and America and, not incidentally, obviating the need for tariff protection.

A leading center of these arguments was the Fabian Society, founded in 1884 with the goal of improving the condition of all Englishmen, including the least advantaged. The Fabians exposed poverty among the working class in a series of publications, many authored by the economic sociologists Sidney and Beatrice Webb. They made the case for a minimum wage and universal health care not just on equity grounds but also to enhance the efficiency of the labor force. They advocated labor exchanges to better match workers with jobs. They established the London School of Economics in 1895 and were centrally involved in the creation of the Labour Party. They counted among their early members such prominent figures as George Bernard Shaw and H. G. Wells. This is not to claim them as populists; the Fabians were nothing if not members of the elite. But it is to observe that this elite was conscious of working-class concerns, and that those concerns received a hearing, which helps to explain the limited traction of more radical movements.

That hearing took the form, perhaps predictably, of yet another investigation, this one a Royal Commission on the Poor Laws and Relief of Distress. Formed in 1905, the commission spent four years laboring over a pair of reports. Beatrice Webb, together with her husband, Sidney, coauthored a minority report advocating child support, universal free education, a living wage, guaranteed health care, and pensions for the retired and disabled. This was not yet a cradle-to-grave welfare state in which young people received the education and training needed to compete in a globalized world and older workers received state-supplied insurance against insecurity and misfortune. Nor were the proposals of

the Webbs enthusiastically embraced by Asquith's Liberal government when the commission reported in 1909. But there was a straight line from the work of the Webbs to the Beveridge Plan, the seminal 1942 document laying the groundwork for the post-World War II British welfare state. Indeed, William Beveridge himself, while still in his twenties, worked at this time as a researcher on the Webbs' project.

The immediate response, in the form of publicly administered social benefits, was limited because the threat to the political establishment was limited.³⁴ The British parliamentary system was firmly established. There was no equivalent of the 1871 Paris Commune, and no need, unlike in Bismarck's Germany, to bind the working class to a newly established state. Modest social protections sufficed to address the insecurity of workers confronted by technical change and foreign competition.

Limited health benefits were already provided, as we have seen, by friendly societies, voluntary associations of workers organized along industrial, regional, and religious lines. Commercial insurance companies meanwhile developed a market in funeral benefits. The 1911 Insurance Act built upon these foundations while modifying their administration and funding. Manual workers in key industries were now required to sign up for insurance in which the worker's contribution was matched by his employer. The resulting funds were administered by a recognized friendly society or by a commercial insurance company once the latter created a health insurance subsidiary.³⁵

Unemployment insurance was extended, in the first instance, only to shipbuilding, engineering, iron-founding, and the building and related construction trades, sectors where seasonal or cyclical unemployment was chronic and where workers had a reputation for militancy. Applicants for benefits had to demonstrate that they had been employed for at least twenty-six weeks in each of five previous years. Moreover, those benefits could be drawn for no more than fifteen weeks in any twelve-month period. Thus, the resulting

system excluded the floating underclass of casual laborers, dockworkers, and others only loosely tied to a particular job, as well as regular workers permanently displaced by changes to the economy.

Pensions were more difficult to organize on a contributory basis. The aged were in no position to contribute, while requiring contributions only from the young would create problems of intergenerational equity. Absent steps to regularize irregular employment, it was impossible to organize contributions from the floating underclass of laborers moving from one casual position to another.³⁶ The government therefore opted for a noncontributory scheme funded out of general revenues. But since there were other pressing demands on the government's income, payments averaged just five shillings a week, less than a fifth the average wage and below the level of subsistence. Only men over seventy qualified, and even these payments were eliminated on evidence of other income.

Although the programs created in this period were modest, they still helped to insulate workers from the elevated sense of insecurity created by industrial change, buttressing support for openness and the market system. They indicated that the political class was listening. None of this prevented the rise of the Labour Party nor, after World War I, the formation of a Labour government, as conservative supporters of these programs, perhaps naively, had hoped. They did not preempt the turn to a more restrictive, empire-oriented trade policy when conditions deteriorated in the 1930s. But the response of the establishment at least delayed these developments by several decades. And they pointed a way forward for those who understood that the British system rested on a measure of social cohesion, something that could not be taken for granted.

Voyage of the Bismarck

the German empire plays an iconic role in the literature on the social insurance state. Imperial Germany pioneered health insurance, accident insurance, and old-age insurance in the 1880s, earlier than Britain, which adopted its own limited form of social insurance at the turn of the twentieth century, and earlier than the United States, which took similar steps only in the 1930s. For those concerned with how states respond to economic insecurity and why some respond faster than others, it helps to understand what informed this precocious state-sponsored action. It helps, specifically, to understand what motivated the Reichstag, the German parliament established in 1871, and Otto von Bismarck, the towering figure who served as chancellor for two decades.

In answering these questions, some invoke the traditional obligations of Prussian landowners to their agricultural tenants, Prussia being the largest member of the German Confederation. Others point to time-honored associations of artisans that had long provided disability insurance to their members. Still others emphasize the rapidity of German industrialization, which outstripped the capacity of these traditional arrangements to provide protections against insecurity, and to the uncertainties of a rapidly changing work environment. They point to the active role of the state in German economic growth—to the role of the Reich in mobilizing resources for the expanding industrial sector, for example.¹ That the state should similarly play a role in providing protections that markets left to their own devices were unable to supply was part and parcel of this experience.

The alternative is to emphasize personalities, much as historians of the British welfare state emphasize David Lloyd George and American historians

emphasize Franklin Roosevelt. The role of the state as problem solver was exalted by no less than Georg Wilhelm Friedrich Hegel, who by the 1820s had relocated to Berlin, the seat of Prussian government, and become something of an academic celebrity. Hegel's pupil Lorenz Stein, longtime professor at the University of Vienna, elaborated his mentor's vision of Prussia as a social kingdom whose benign monarch was responsible for the welfare of his subjects.² Stein's arguments were then taken on board by economists of the German historical school, starting with Gustav von Schmoller, who coined the term "social policy" and made it the focus of his research.³

Bismarck himself was no radical seeking to overturn the prevailing order. He was, to the contrary, a conservative seeking to strengthen the state precisely in order to secure the established state of affairs. Shepherding health, accident, and old-age insurance through a Reichstag dominated by conservative politicians was his strategy for convincing the working class that there were alternatives to the Socialist Party for advancing their interests, something that was imperative once imperial Germany adopted universal male suffrage in 1871.⁴ It was a way of heading off more-radical political movements. It gave workers an interest in the stability of the state insofar as their pensions now depended on it. All this was important for a German Empire whose unity was still to be forged.

To be sure, Germany was not the only place where workers complained of insecure factory employment, farmers protested capricious market forces, and industrialists clamored against unfair foreign competition. It was not the only country with political, regional and religious divisions. The United Kingdom had its Welsh, its Scots, and, most nettlesome, its Irish. America's Populist Revolt set the agricultural South and West against the industrial East. But Germany was the one place where the response took the form of tariffs for agriculture and manufacturing together with state-mandated social insurance to protect workers against the insecurities of industrial life.⁵

Before the 1870s, German states relied on tradition and custom to aid their

destitute and disabled subjects. Catholic and Protestant churches supported indigent believers. Craft guilds pooled the resources of their members and supported invalids and other unfortunates. Lords acknowledged their obligations to their serfs as well as the other way around until Prussia abolished serfdom in 1807, and even then many *Junkers*, the landowning nobles who dominated East Prussia, retained a sense of obligation to their tenants. Bismarck himself, not incidentally, was a sixth-generation *Junker*.

In addition, Prussia, whose policies set the pattern for other German states, had a poor law not unlike England's, under which the state delegated the administration of poor relief to localities. The Prussian poor law reform acts of 1842 gave those local measures a modicum of uniformity, similar to what happened in England with its 1834 reforms. As in England, the generosity of relief was limited by fears that excessive support would "impair the energy of self-help."⁶ And as in England, there were worries that overly generous support would attract opportunistic migrants and heighten the burden on local ratepayers. Prussia's 1842 legislation therefore allowed towns to deny residence to destitute newcomers.⁷ As a further brake on migration, a three-year waiting period was established, only after which was an individual entitled to relief.⁸

Compared to England, the Prussian system focused more on industrial workers.⁹ Attention to their condition was heightened by riots by weavers in Silesia in 1844. Like the Luddites before them, the weavers of southeastern Prussia suffered wage cuts due to the substitution of machinery and less-skilled workers. The difference was that this substitution now occurred as much abroad—in Lancashire—as at home, and the vehicle was cheap imports, inciting unhappiness about foreign competition along with mechanization.

The weavers responded by destroying machinery, burning warehouses, and attacking the homes of local merchants, which were rather more accessible than the textile mills of Lancashire. Having adopted the same tactics as the Luddites, they met the same fate. The army was deployed. Eleven protesters were killed,

and the leaders were arrested, flogged, and imprisoned. The weavers' tragic end was memorialized by the German poet Heinrich Heine in his "Song of the Silesian Weavers," published in Karl Marx's newspaper *Forward!*¹⁰ Friedrich Engels may have succumbed to wishful thinking when he wrote how "the working classes ... have been aroused from their lethargy by misery, oppression, and want of employment, as well as by the manufacturing riots in Silesia and Bohemia" and claimed that one could not "go on board a steamer, or into a railway-carriage, or mail-coach, without meeting somebody ... who agrees with you, that something must be done to reorganize society."¹¹ But there is no question that something was in the air.

That something unsettled the conservative aristocracy. Baden, the Palatinate, the Rhineland, Bavaria, Saxony, and Prussia all saw political uprisings, inspired by protesting French workers, in 1848. The workers demanded better wages and working conditions. Middle-class elements inveighed against the clannish, poorly run autocratic governments of Germany's fragmented states and called for modernization of their archaic civil and criminal codes. The two groups met at the barricades.

Accommodating middle-class demands was straightforward. Baden broadened the franchise. Prussia's King Frederick William IV agreed to popular election of a national assembly to draft a constitution together with the Crown.¹² Calls to replace the many anachronistic principalities with a Greater Germany were met by expanding and deepening the customs union, setting the stage for eventual creation of the German Empire.

It was less clear how to placate the workers. Bismarck, having been elected to the first Prussian diet (the Landtag) in 1849, initially favored a reactionary response, namely restoring the guild system of mandatory membership and self-insurance.¹³ But this conservative approach, in which artisans banded together on the basis of craft to support one another and limit unwelcome competition, was not well suited to an economy on the cusp of industrialization. Workers

were moving into industrial employment, where there was less stability. Factory labor associated with an industry rather than a specific set of skills was not easily organized into guilds. Workers might have been encouraged to form industrial unions capable of providing health, disability, and old-age insurance to their members, but employers realized that members might also make other demands, including higher wages and shorter hours. If encouraged to organize, they might form a political movement that diverted popular support from established parties.

In 1849 the Prussian diet, still seeking to build on the traditional approach, authorized municipal authorities to order factory workers to join mutual welfare funds without at the same time recognizing their right to bargain. The result was some two hundred such funds. But membership was spotty, benefits were limited, and funds to which employers as well as workers contributed were the exception.¹⁴ The weakness of these schemes was their local nature. Employers could object that mandating substantial contributions might render them unable to compete with firms in neighboring jurisdictions.

Discussion of these problems acquired urgency in the 1860s with more ferment in the ranks of industrial workers. The weavers were battered again, this time by cotton shortages caused by the American Civil War. The German labor movement created new associations, the most important of which, the German Workingmen's Union, sought to advance the interests of its working-class members in the electoral arena. It quickly acquired 125,000 members—an ominous number from the conservative standpoint—mainly urban and factory based. The Workingmen's Union then merged with a competitor, the Social Democratic Workers' Party, to create the Socialist Workers' Party, renamed the Social Democratic Party in 1890.¹⁵

Above all, there was the industrialization of Germany itself, powered by unification of its formerly independent polities into a federal state with an imperial chancellor in 1871. Employment in industry, unlike that in agriculture,

did not follow predictable seasons. Protections from poverty and insecurity afforded rural workers by a local poor law authority and charitable bodies were not available to their urban counterparts, or at best were available only after an extended waiting period.

Bismarck, previously preoccupied by the territorial consolidation of Germany and war with France, now turned his attention to the internal unity of the empire. Unity required the allegiance of the working class, and social insurance was a means to this end. The chancellor, one author writes, “wanted the worker as a loyal and obedient ally, and to accomplish this the worker’s interest had to be closely tied to the state. The state, therefore, had to become the protector of the workingman.”¹⁶ This was strategic statecraft, not altruism. It was a policy “born in fact not of love, but of fear” of a populist or revolutionary working-class reaction.¹⁷

The initial result was the Employer Liability Act of 1871, which anticipated similar British legislation by several decades.¹⁸ It made the employer liable for a worker’s injury even when fault lay not with the employer directly but with other workers.

Although this was a significant step, there was as yet no equivalent of the modern Federal Ministry of Labor and Social Affairs to enforce standards and establish procedures for adjudicating claims. To obtain a judgment, a worker had to sue his employer, a challenging task for someone with limited financial resources. To collect, he had to convince the court that the fault lay with others and not himself. Thus, the 1871 act was important more for the precedent than for actual compensation.

But, having started down this road, German legislators were in a position to go further. When a financial crisis erupted in 1873, it strengthened the hand of those favoring a more interventionist state. The crash inaugurated a period of slow growth and falling prices referred to by contemporaries as the Great Depression (or Long Depression), not to be confused with the Great Depression

of the 1930s. Workers experiencing wage cuts and unemployment rallied around the Social Democratic Party, which, alarming establishment politicians, polled 9 percent in Germany's 1877 election—almost the exact same share polled by the People's Party in the U.S. presidential election fifteen years later.

The insecurity associated with industrial change, slower growth, and heightened foreign competition also manifested itself in nationalist and nativist sentiment. It found expression as the convenient belief that someone other than hardworking Germans themselves was responsible for these unpredictable and not uniformly desirable changes in economic life. In the United States, it was expedient to blame immigrants and to pass the Chinese Exclusion Act. In Germany, a country of emigration, it was easier to target the Jewish minority. Jews were blamed for the 1873 stock market crash by the magazine publisher Otto Glagau, who took heavy financial losses and channeled his frustration in anti-Semitic directions, and whose inflammatory publications attracted a considerable audience.

Bismarck, meanwhile, had just launched the *Kulturkampf*, his culture war against the Roman Catholic Church, with the goal of weakening religious control of education and thereby strengthening the role of the federal state. By highlighting religious differences, the *Kulturkampf* cleared the field for anti-Semitism. Not least, it encouraged anti-Semitism among Catholics who sought to deflect blame for the perceived sufferings of the German people onto others.

More generally, the newly created empire was fertile ground for anti-Semitism because Bismarck and others, in an effort to further strengthen support for the state, also sought to foster the notion of a German *Volk*. Jews were impugned as not fully German, making it possible to single out what was now characterized as not just a religious minority but also a racial group.¹⁹ Thus, the same resentments, fed by economic insecurity and nationalism, that would give rise to anti-immigrant sentiment in the twenty-first century fostered anti-Semitism in the nineteenth. And then as now, there was an effort by politicians

and others to use that nationalistic, anti-other sentiment to advance their policy agendas and political careers.

Fortifying the imperial state required securing the allegiance of not just workers, of course, but also industrialists and landholders. In the United States, where the depression triggered by the Panic of 1873 led similarly to falling crop prices and to difficulties for capital-heavy industrial firms that made profits only when plants ran at capacity, the response took the form of the McKinley Tariff, which protected manufacturing from cheap foreign imports. In Britain too, tariff reform was fiercely debated, although in the end allegiance to free trade proved too strong. In Germany, building a winning coalition required forging an alliance between heavy industry, whose political influence, while growing, remained limited, and the country's still powerful Prussian agriculturalists. This was the so-called marriage of iron and rye. Agriculture and industry were both suffering from the post-panic slowdown in growth. Large landowners felt competition from foreign cereals as railways and steamships lowered the cost of importing grain from Russia, the Danube Basin, and the United States. These transport improvements similarly made it less costly to import iron and steel products from Belgium and France, where producers received government-financed export bounties.²⁰ And even where Germany remained the low-cost producer, tariffs were needed in order for firms to limit output and raise prices, cartel behavior being German industry's preferred way of limiting price cuts when demand weakened.²¹

Industrial interests therefore formed the League for the Protection of the Economic Interests of the Rhineland and Westphalia, also known, for self-evident reasons, as the "Long Name Society." They emphasized not just foreign bounties but also domestic security as justifying import duties.²² Large landowners, for their part, established the more parsimoniously named League for Tax and Economic Reform to lobby against the grain invasion.

Bismarck's own conversion to protectionism occurred in the 1870s. He was

responding to the complaints of industrialists and agriculturalists—four hundred Rhenish-Westphalian producers who met in 1877 to petition against unfair foreign competition, for example—and seeking their political support. He was searching for a source of federal revenue, since the Reich still depended on transfers from its constituent states. That this was a period of mounting tensions in the Balkans and between Germany and Russia made obtaining this dedicated fiscal and military capacity seem all the more urgent.

Bismarck was also maneuvering politically, having broken with the Liberal Party and its left wing. He saw the tariff as a way of attracting industrialists and agrarians affiliated with the *Junker*-dominated Conservative Party and the Catholic-based Center Party.²³ On July 12, 1879, his tariff bill was approved by a coalition of Center and Conservative Reichstag members together with fifteen rebellious members of the right-wing National Liberal Party. The chancellor thus achieved much of what he wanted, though not the full increase in federal revenues, being forced by the Center Party to cede a significant fraction of the increase in import duties to the states.

Although industrialists and landowners had now received the olive branch of protection, something still had to be done to pacify labor, more so insofar as taxes on imported grain made for higher bread prices. Expert opinion acknowledged the linkage. Adolph Wagner, the Berlin-based professor of economics and fiscal policy expert who helped to found the Social Policy Association (*Verein für Sozialpolitik*), a group of academics and parliamentarians seeking state-sponsored solutions to social problems, advanced import tariffs as a way of raising revenues to fund social programs, thereby strengthening the state. Von Schmoller, the preeminent economist of the time and leader of the German historical school, similarly supported tariffs on the grounds that these could be used to raise revenues for social programs.²⁴

Bismarck's preferred design for health, accident, and old-age support was compulsory insurance for industrial workers, with contributions from employers

and workers together with state subsidies, all administered by an imperial insurance office. He described these as ideas for heading off international socialism in an audience with King Ludwig II of Bavaria in 1880 and again in an interview with sympathetic journalists in 1881. Creating an imperial insurance administration could highlight the social role of government and foster worker allegiance. Public subsidies would give workers a financial stake in the stability of the state.²⁵

This was a bitter pill for conservative social groups to swallow. Right-wing Liberals criticized Bismarck's administrative centralization for undermining self-reliance and private charity. Members of the Conservative Party opposed it for intruding on the organic relations between workers and employers. The Center Party, dominated by Catholics from Bavaria jealous of their regional autonomy, opposed anything that smacked of a strengthened role for the federal government and, by implication, the Protestant north.

Progress required compromise, even by an iron chancellor now firmly ensconced in office. The eventual compromise delegated the administration of health insurance to associations of workers and employers, dominated in practice by the latter, which reported to regional insurance offices.²⁶ One is reminded how regional opposition to New Deal programs in the United States was similarly overcome by delegating their administration to the states.

The way was thus paved for health insurance in 1883, the further extension of accident insurance in 1884, and old-age and disability insurance in 1889. While this was an impressive array of initiatives, in each case benefits were far from generous. Health-related payments, for example, were targeted at those with temporary ailments. Benefits, including sick pay and access to specialized medical attention, were provided for no more than thirteen weeks and capped at half the average wages of the insured.²⁷ With its limit of thirteen weeks, the program promised to create only temporary ties between the worker and the state, which rendered it one of Bismarck's lower priorities. The chancellor

therefore acquiesced to suggestions that health legislation should build on the foundation of existing guild, factory, and union sickness funds. New funds were created for trades that lacked them, and local funds were established for workers who did not fit into existing categories. Regional offices administered these new insurance funds for workers not served by factory, industry, or union insurance. The federal role was limited to mandating the creation of additional funds and standardizing contributions, which averaged about 1.5 percent of the wage and came two-thirds from workers and one-third from their employers. All this represented a considerable scaling down of Bismarck's ambitions, but it was at least something.

In contrast to health benefits, payments to permanently disabled workers were provided for an extended period, promising to more firmly attach the individual to the state. Bismarck therefore pushed harder for subsidies to top up the contributions of workers and firms. The new accident insurance law covered all industrial accidents. It was administered by associations of employers. But there remained opposition to federal subsidies from Liberals who saw the idea as creeping socialism, and from Center Party members jealous of states' rights. In the final compromise, the financial role of the state was limited to providing a backstop in the event that private contributions proved inadequate.

Old-age insurance was administered by local pension boards controlled by civil servants and overseen by a state government ministry, giving government (albeit state rather than federal government) a more prominent role. In this case, moreover, Bismarck's proposal for state subsidies was retained. Subsidy supporters in the Reichstag heralded the role of pensions in "support[ing] ... the total economic and social order."²⁸

The insurance laws of the 1880s focused on industrial workers, who felt economic insecurity most strongly and were especially prone, in the prevailing view, to radical socialism. Insurance was finally extended to white-collar workers earning less than 2,000 marks a year in 1900 in the case of pensions,

and in 1903 in the case of health insurance. The same year, 1911, in which Great Britain put in place its own social policy legislation then saw passage of the Reich Insurance Law, which provided health insurance to all employees, including agricultural workers, and benefits for dependents of the elderly and disabled.^{[29](#)}

Germany's early start in adopting social insurance thus reflected long-standing awareness of the role of the state in governing the economy and of the need for public intervention as the country industrialized. Urbanization and the shift from agriculture to industry occurred even faster than the comparable transitions in Britain and the United States, heightening insecurity and limiting the effectiveness of traditional institutions for addressing it. Worries that those industrial workers might unite in an anti-market, anti-establishment movement were thus more immediate than in other countries.

These concerns fused with Bismarck's desire to tie the working class to the new federal state. They combined with the reaction against globalization by still-influential German agriculturalists and with the complaints of powerful industrialists about lack of market access and unfair foreign competition. These dissatisfactions too, like those of the workers, had to be harnessed. It was necessary to tie these additional interest groups to the state and to Bismarck's base in the Conservative and Center Parties.

This confluence was what made possible Germany's distinctive response to the pressures of globalization and industrial change, which included precocious development of the social insurance state combined with tariff protection for both agriculture and industry, a response that effectively suppressed anxiety about economic change on both the Left and the Right. It was not a confluence that was equally evident in America, where both revolutionary ferment and confidence in the administrative capacity of government were less. It was not as evident in Britain, where parliamentary institutions were well established, calming fears of revolution, and where agriculture had declined to the point

where it no longer figured importantly in political calculus.

Politicians in other countries observed the German recipe of tariff protection for agriculture and industry together with health, accident, and old-age insurance for workers facing the uncertainties of industrial life. The German precedent influenced design of the McKinley Tariff and the health and pension benefits provided to Union Army veterans and their spouses in the United States. It informed the views of Beatrice and Sidney Webb and Britain's National Insurance Act. It led Denmark, Sweden, Norway, and other countries to create commissions to investigate the social question. In all these instances, legislators made reference to Germany's earlier measures and drew on them for inspiration and support.



Figure 4.1 German Tariff Rates, 1870–1913

Source: B.R. Mitchell, ed. *European Historical Statistics, 1750–1970* (Springer, 1975).

But agreement on those German measures required compromise. As a result,

the import duties agreed to in 1879 limited international trade only to a degree. Tariff rates fell from the mid-1890s, as industrialists gained political leverage relative to landowners and post-Bismarck governments lowered duties on imported agricultural commodities.³⁰ Health, accident, and old-age benefits were funded mainly by the workers themselves. Administration was delegated to employers, to corporative associations of firms and workers, and to local and regional agencies. The federal government's role in subsidizing the system was circumscribed. The precocious measures taken by the German Empire in response to globalization and the dislocations of rapid industrial change were real, but they are also prone to exaggeration.

Above all, those measures were important as a model. They were a model that some countries but not others, in their wisdom, ultimately chose to follow.

