

# Economic Crisis and Response

## Gourevitch and Sectoral Politics

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## Where we've been

- Diamond: the geographic determinants of development
- Polanyi: the political choices and consequences of the market
- Gerschenkron: the constraints and opportunities of technology and development
- Now: the triumphs and tribulations of the developed economy

# Common disruptions

After Western industrialization, international economic shocks hit everyone at the same time:

- The Great Deflation: 1873-1896
- The Great Depression: 1929-1949
- The Oil Shocks: 1973-? (1987)
- The Panic of 2007-2009

How to understand the varied responses?

# Common policy choices

Gourevitch identifies five policy alternatives:

- 1 Classical liberalism
- 2 Socialism
- 3 Blanket protectionism
- 4 Mercantilism (targeted protectionism)
- 5 Keynesianism (after 1920s)

Note that the policy spectrum becomes more varied as time goes on

# Common determinants of choice

... and five influences on policy choice:

- ① Sectoral interests
- ② Intermediary associations (parties, unions, etc)
- ③ State structures and institutions
- ④ Economic ideology
- ⑤ The International system

**Not enough** to look only at sectoral interests: context is important

# Dimensions of the disruptions

What can we identify as common to Gourevitch's crises:

- Downturns in the business cycle
- Redistribution of the geographic redistribution of production
- Growth of new methods of production

Each of which create different **opportunities and challenges** for different **sectors**

# What happens in the late 19th century?

A few things:

- End of the railroad expansion (~ 33% of capital investment); 1869, 1873 panics
- Grain prices collapse after 1865 (rail + end of Civil War)
- France enters its Third Republic and begins intensive industrialization (1870)
- Germany unifies its industrial West and agricultural East (1871)
- Mass industrialization generates excess capacity
- Land for colonization dries up

Result: The Great Deflation, 1873-1896

# End of the rail bubble

**Table 6**

Spread of Railways in Ten Selected Countries

(Length of line open [in kilometers [1km = 5/8 mile]])

	1840	1860	1880	1900
<b>Austria-Hungary</b>	144	4,543	18,507	36,330
<b>Belgium</b>	334	1,730	4,112	4,591
<b>France</b>	496	9,167	23,089	38,109
<b>Germany</b>	469	11,089	33,838	51,678
<b>Great Britain</b>	2,390	14,603	25,060	30,079
<b>Italy</b>	20	2,404	9,290	16,429
<b>Netherlands</b>	17	335	1,846	2,776
<b>Russia</b>	27	1,626	22,865	53,234
<b>Spain</b>	-	1,917	7,490	13,214
<b>Sweden</b>	-	527	5,876	11,303

**Figure:** Rail track miles in the 19th century



# Wheat prices

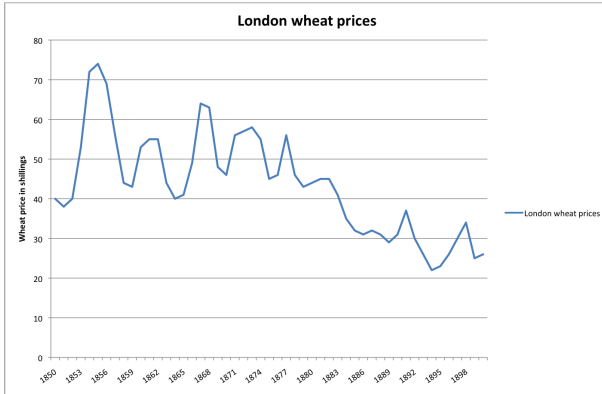


Figure: Wheat price collapse

# Germany, Iron, and Rye

The newly industrialized German economy splits along sectoral lines:

## **Protectionist**

- Traditional agriculture
- Heavy industry

## **Free Trade**

- “Second industrial revolution” industries
- High-value-add agriculture (dairy and meat)
- Working class

Another view: competition over existing markets versus competition for new markets

## Policy analytics: 19th century protectionism

Are German and French protectionism the same?

Determinant	France	Germany
Sectors	Traditional ag. & ineff. heavy industry	Rye / Iron vs. "Second indust. revolution"
Intermed. Assoc.	Strong, diverse	Weak, captured by state
State str.	Weak centralized control	Strong, captured by ag. aristocracy and heavy industry
Ideology		Listian protectionism
Intl. System.	Early colonial power, late industrializer	Rising power w/ few colonies

Table: Policy outcomes

Notice that **both** France and Germany turn protectionist, but for different reasons: authoritarian state capture in Germany; interest coalitions in France. The major difference is **timing**: France took longer.

# Policy analytics: 19th century trade conflicts

Why does the UK remain a free-trade country?

Determinant	UK	Germany
Sectors	Finance and export industries vs. "free trade imperialists" and import-competing industry	Rye / Iron vs. "Second indust. revolution"
Intermed. Assoc.	Expanding franchise, strong parties	Weak, captured by state
State str.	Merchant/finance-dominated Parliament	Authoritarian state, captured by ag. aristocracy and heavy industry
Ideology	Free trade liberalism	Listian protectionism
Intl. System.	Dominant intl economic and colonial power	Rising power w/ few colonies

Table: Policy outcomes

In Britain, the strength of the institutions, interests, and the international position overcome the anti-free-trade populism of Chamberlain until the 1930s

## The US as outlier

Notice that the US is an outlier:

- Commodity ag wanted free trade (export markets and cheaper industrial products)
- Industry wanted protection (Listian development)

Why successful:

- The alternative—inflationary populism—alienated urban labor, immigrants, and small businesses
- High-value ag got protectionism in the form of standards
- Giant internal markets muted the effects of tariffs on industrial competition

Thus a mercantile approach: protect some sectors but not others, consistent with their preferences

## Expanded policy options: The 1930s and beyond

19th century policy choices were comparatively primitive:  
protectionism or free trade

After the 1920s, you have more options:

- Keynesian demand stimulus
- Socialism

Why, then, does adjustment take 20 years (1929-1949)?

## Policy inertia

We find that things are sticky:

- Sectors: Sectoral adjustment frustrates interest aggregation
- Interests: Coalitions are sticky (Lib-Lab in the UK)
- State capacity: Institutions are durable (HM Treasury, Fed. Reserve)
- Ideology: Ideologies are sticky (Mercantilism, beggar-thy-neighbor, the “virtues of recession”)
- The intl. system: The international system has limited capacities