

Intellectual and Institutional Continuum in Advanced Economies: the Anglo-Saxon vs. the Continental

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Introduction

In this paper we explore the many ways in which the State has impacted on the process of economic development since the eighteenth century in Western European countries. We select Britain, on one hand, and France, Germany, and Italy, on the other, as examples of Anglo-Saxon² and Continental Europe respectively. These countries have been the most populous, the main players in the European economic and political environment, and their public policies have been consistent, if not stable, over the last few centuries.

Comparing the process of economic development in Britain and in Continental Europe, Alexander Gerschenkron (1962) contended that the backward industrializers depended on the State to supply the needed inputs when the market failed. The purpose of government intervention could include: nation-building, economic growth and development, rent-seeking by either producers or consumers, and, more recently, employment. These multiple and competing interests affect public policy; dissonant and disparate government actions may have unintended consequences, that is, government rules both by accident and design. Edward S. Mason observed:

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² Anglo-Saxon, in addition to Britain, includes such other countries as the United States as well as Australia, Canada, and New Zealand.

If we look back... to the beginning of industrialization in the West, particularly in England, we can hardly fail to be struck by the smallness of the positive role played by the government in the development process... on the Continent, where industrialization came later than in England and where the philosophy of natural liberty never cut quite so wide a swath, the role of the state in economic development was much larger (1960, p. 637).

We argue that the specific institutional and intellectual frameworks of Britain and the Continent (as defined by proxy here) have persisted from the eighteenth century to the present.³ We examine economic thought and policies from the 1700s to the 1900s: we hypothesize continuity of thought and action in the role played by the State in Britain and on the Continent, that is, there is an Anglo-Saxon model and a Continental model of State intervention. Crouzet attributes the continuation of these specific models to differences in 'values' (1985, p. 37); this assertion is based on David Landes's socio-psychological factors in the process of economic development (1969). We maintain that these 'values', either as institutional and intellectual frameworks or as socio-psychological factors, are deeply ingrained over many generations as a general cultural milieu.⁴

The juxtaposition of the Anglo-Saxon (here, Britain) versus the Continental economic policy models, while most evident in trade policies, appears to be more generalized. Philosophically, if not always in practice, the former abhors the State's role while the latter sustains the State even under market-oriented regimes. Generally, one could say that in Britain the individual typically has been the supreme actor as envisioned by Adam Smith. Allegedly, economic man is rationally motivated to maximize his material welfare, and thus the welfare of the State.⁵

³ While some disagree (Geiger 1994), many more accept the proposition that there has been continuity from Louis XIV to Charles de Gaulle in terms like Colbertism, mercantilism, and dirigisme. "The French dirigiste model, based on a strong and ambitious state, at once the creator of riches and the guarantor of equality, retains a tight grip on the French mind" (*The Economist*, 5 June 1999).

⁴ This is the general thesis proposed also by Richard Pipes in his analysis of the continuity of the Soviet Union, inheritor of the Russian Empire (Pipes 1995).

⁵ One may recall the atomistic principle of economic man in Smith's classical economic model.

In France, Germany, and Italy, not significantly different from most other western European countries, the State has been expected to lead by appropriate policies, which some observers call dirigisme, that is, overt state control of the commanding heights of the economy. "Private economic actors followed the lead of public officials" (Kuisel 1981, p. 277). While hardly identical in all western European countries, the State with its highly technocratic bureaucracy provides guidance to economic sectors (Locke 1995, p. 14). The Anglo-Saxons' attempt to influence the State, in accordance with the harmony of interests of various power centres, and perceive the State as a necessary evil. "In France... one does... speak of the state (*l'état*) as a powerful, independent institution in political life, and the almost metaphysical notion of *l'état* as the unified authority of the society has a powerful symbolic value in French politics" (Zysman 1977, p. 194). Germany and Italy, both before and after unification, adhered to and reinforced the French model of State intervention.

Eighteenth Century

By the eighteenth century, Britain and France, having defeated their rivals constituted the major European superpowers; Germany and Italy unified only a century later.⁶ During the second half of the eighteenth century Britain defeated France on land and sea, in Europe, Asia, and North America. Victory enhanced the former's empire and foreign commerce, while leaving the latter to ponder why. In response to continuing defeats, the French established the system of *les grandes écoles* to provide trained administrators and high-level public servants. Under these circumstances, economic thought and policy varied from

⁶ During the eighteenth century, the economies of Germany and Italy lagged far behind the level and sophistication of the British and French. True, Frederick the Great, at the end of the century, succeeded in building a strong army, with the financial support of the British who needed allies against the French. Italy was divided into many individual mini-states that were partially controlled by foreign powers, and consequently played a minimal independent role in European affairs.

place to place and, in addition, the same words or concepts acquired different connotations in various locales.

The British economy of the eighteenth century reflected emerging capitalism in a specific setting influenced by the mercantile-industrial entrepreneurs. The State preserved and protected the rules of the game as construed by these entrepreneurs. In continental Europe, on the other hand, capitalism, while lagging, conceded the State more responsibility in forging national economic power. Unwittingly, the British provided the basis for the analysis of the capitalist market economy, with a minimal role for the State, and British thought and policy represented a widely accepted standard. Continental Europe supplied an alternative standard, one which questioned the universality of this conventional wisdom by advocating (and practising) a greater role for the State.⁷

During the 1700s, while Britain was rapidly developing capitalist agriculture and industrializing, France was still debating agricultural marketing policies. In Britain, in 1776, Adam Smith argued that liberalism, with few exceptions, such as public works beyond the scope of private enterprise, should be the model for the economic growth of nations. In France, two decades earlier, François Quesnay had presented a blue print for *limited* liberalism that advocated free trade for (only) farm products and (limited) political freedom for everybody (Schachter 1991).

Britain

One could assert that the English national market originated with the Norman Conquest in 1066; essentially no internal trade barriers existed within Britain after the Act of Union (1707) which united England with Scotland. During the eighteenth century Britain and its colonies constituted the world's largest customs union. At that time, by and large, the British population had the highest standard of living in the world, mainly because workers received higher wages than on

⁷ Especially Friedrich List (1789-1840) for the German states.

the Continent. This partly stemmed from the choice of specialization and mass production, by far more prevalent than in France (Crouzet 1985, pp. 41-2). Furthermore, Britain was centralized but not absolutist since it had a constitutional monarchy with a long-established parliament dominated by the landed aristocracy. Control of taxing, spending, and commercial policy rested in the hands of the House of Commons elected by a comparatively small number of wealthy taxpayers.⁸

Britain relied heavily on foreign commerce, which the government regulated much more closely than domestic commerce, especially through the Navigation Acts, beginning in the mid-seventeenth century. Economic nationalism or mercantilism included legalized monopolies granted to the great overseas trading companies, such as the East India Company, as well as the rules governing trade between Britain and its far-flung empire.

During the eighteenth century a major difference between Anglo-Saxon liberalism and continental limited liberalism pivoted on the role of the State. The Anglo-Saxon version pursued a minimum role for the State, with markets relatively unhampered and goods and services moving comparatively free of obstacles in spite of a plethora of (later adopted) health and safety regulations. To be sure, even Smith was hardly an ideologue; he acknowledged that private individuals could not perform certain activities efficiently. Of necessity, the government had to play a role in setting regulations and rules, and in providing education, defence, and some infrastructure.

Adam Smith defended the Navigation Acts because they helped Britain overcome Dutch maritime supremacy. Thus, regardless of ideology, the State adopted mercantilist policies when deemed necessary. Only after it had achieved industrial leadership did Britain replace protection with *laissez faire*. Note that British mercantilism was considerably less comprehensive than the French counterpart, despite limitations on the export of technology and the emigration of

⁸ According to Werner Sombart, Britain succeeded in economic advancement by adopting the right religion at the right time and by allowing the return of the Jews (Sée 1926, pp.107-110).

skilled workers. Starting in the late seventeenth century, Britain forbade the export of specific machinery; complete free trade for machinery was not established until 1843 (Musson 1972, pp. 20, 50). Also, greater symbiosis prevailed between British scientists and scholars with early industrialists than in France; there the State attempted to influence a plethora of intellectuals and so-called 'philosophers' who were prone to abstractions rather than practical pursuits (Crouzet 1985, p. 38).

France

Cameron notes that "most continental countries had long traditions of state paternalism or étatism" (p. 293).⁹ The French Enlightenment favoured individual freedom but advocated an important role for the State in the process of economic growth. "French policy makers of all persuasions ...[were]... more likely to approve dirigiste¹⁰ style intervention than the British counterparts" (Hall 1986, p. 279). Quesnay envisaged a benevolent despot and advocated limited free trade for agriculture. Even after the overthrow of the traditional despot (1789), political freedom was sporadic in France.¹¹

During the eighteenth century France's political, social, and economic institutions differed greatly from that of Britain. Vestiges of feudalism and serfdom survived in France until the Revolution, for example, tax exemptions for the aristocracy, the nobility and the clergy. Also, those peasant proprietors who possessed (but did not own) land paid a quitrent and, although peasants had freedom of movement, they still paid feudal dues.

With the high costs of horse and wagon transportation, and since even a minor grain shortage aroused the fear of localized famine, the movement of grain from one province to another had long been closely

⁹ The *manufactures royales*, dependencies of the crown, produced such luxury items as porcelain, crystal, and tapestries.

¹⁰ *Dirigisme* is defined as a political system that allows the State to give general direction to the economy.

¹¹ Not until 1870 did France establish a parliamentary system based on universal manhood suffrage.

restricted to protect the local inhabitants. For this reason, France, probably a net importer of grain in the mid-eighteenth century, adopted free trade in grain as a short-run expedient during the crop crises of 1754, 1763, and 1774. Indeed, the Physiocrats, epitomized by Quesnay (although one could easily cite half a dozen others), focused on agriculture and started to advocate a freer market for grain since they believed that this commodity, above all others, was needed for survival. Most Frenchmen, however, opposed free trade in grain and preferred protectionism. The ever-present fear of famine justified control by the State to protect the poor and thereby avert civil disorder. To be sure, Anne Robert Jacques Turgot, another Physiocrat, while Minister of Finance between 1774 and 1776, decreed domestic free trade in grains, only to be reversed upon his dismissal. Some economic historians believe that Turgot was more influenced by pre-Smith British economists than by French Physiocrats (Groenewegen 1987). Based on this experience, a present-day economist remarked that "French liberalism rarely flourishes enduringly" (Adams 1989, p. 251).

In addition, France remained an absolute monarchy; the Estates General had not been convened since 1614 and did not meet again until the coming of the French Revolution in 1789. Moreover, French mercantilism was much more interventionist than British mercantilism. Also, in contrast to Britain, France was absolutist but not centralized. The impediments to internal commerce reflected the gradual growth of France through accretion during several centuries. French *octrois* (customs duties at city gates) persisted until the coming of the automobile in the twentieth century. The traditional internal trade barriers divided France into three main tariff districts, which fragmented the market and persisted despite Colbert's seventeenth-century efforts as well as those which followed. "From the time of Colbert to the French Revolution, the Crown worked to eliminate internal tolls and tariffs...The Crown wished to make France a free-trade zone similar to England" (Schaeper 1995 p. 763).

The French economy balanced precariously between the *ancien régime* and an emerging capitalist one. The Physiocrats contended that agricultural exports would increase total demand and thus induce

an increase in French agricultural productivity, which was less than that of Britain. The Physiocratic critique of French regulation of the internal grain trade, however revolutionary for continental Europe, was hardly profound and only asked that France adopt an economic policy long existing in Britain, namely, free trade in the domestic grain market.

Privileges of all sorts segmented French society, much more than in Britain, from top to bottom as well as from province to province. As noted above, Quesnay favoured Enlightened Despotism, based on top-down reform. However, the despotism of eighteenth-century France was never enlightened and therefore meaningful economic reform never occurred before 1789. The State was involved in the construction of canals, which extended the market. In practice, these stemmed more from the lack of private entrepreneurs than from State take over (Geiger 1994, p.43). Philosophically the so-called *laissez-faire* theorists seem to have been in reality national economists who “placed emphasis upon state rather than individual interests and ... lauded political economic actions” (Clough 1939, p. 363). While Colbert in the 1600s attempted to unify the country by eliminating impediments to the free flow of goods in the domestic market, he believed in State intervention. “Colbertisme remains a popular term for pervasive government initiative at the microeconomic level” (Adams 1989, p. 46).

France achieved institutional and political cohesion later than Britain. Richelieu succeeded in securing royal domination over the existing social order. Colbert strengthened the basis of the mercantilist economic system under which France attained a more centralized government during the reign of Louis XIV (1643-1715) through royal civil servants. Yet, French mercantilism, known as Colbertism, was not a set of principles of political economy but rather *ad hoc* decisions taken at the centre (Geiger 1994, p. 35). While in Britain some policies were formulated and implemented at the local level, in France local and regional institutions and privileges offset centralization, which postponed internal economic integration until the advent of Napoleon.

Germany

In the numerous fragmented German states, Cameralism, a variant of mercantilism, developed during the seventeenth and eighteenth centuries to make order out of the chaos created by the Thirty Years War, which had impoverished the German states. The Cameralists believed that this could be accomplished through the establishment of state economic enterprises and the development of the infrastructure. They also wanted to remove internal trade barriers but this waited until the nineteenth century. "Cameralism emphasized the paternalistic character of the government's centralized fiscal policy...a regulator for development" to improve the conditions of the people in contrast to British and French mercantilism that aimed at increasing the treasure of the crown (Recktenwald 1987, p. 313).

As in other types of mercantilism, the ultimate objective was self-sufficiency; German political fragmentation, which persisted until the mid-nineteenth century, could not accomplish this objective. Indeed, the Prussian monarchy attempted to toy with free trade but Germany was so splintered that it failed (Fear 1997).

Internally the State's role continued to expand. Frederick the Great, an enlightened despot, encouraged industry through subsidies, devoted crown lands for experimental farming, increased state monopolies for household necessities, and established a central (royal) bank (Gagliardo 1967). Some historians maintain that wholly-owned state industry was the exception; the government funded and occasionally managed, directly or indirectly, enterprises (Gagliardo 1991, p.191). Others observe that "in Prussia, the state, particularly through the Overseas Trading Corporation (*Seehandlung*) and the Mining Office (*Oberbergsamt*) owned a number of manufacturing and mining enterprises" (Dunlavy 1994, p. 16).

Italy

Italy entered the eighteenth century weakened with the prosperity of northern cities rapidly disappearing. The decline began with the

struggle between Charles V and Francis I that shattered the apparent political stability of the quasi-independent city states (Baumol 1987). Afterwards Italy continued to be divided among many individual political entities until the middle of the nineteenth century.¹² Unlike France, which responded only to recurring crises, in 1776 Lombardy, controlled by Austria, declared freedom of internal trade in grains and permitted their export in 1786. In 1769, Pietro Verri, a Milanese economist, favoured free internal grain trade limited to the home economy but it took twenty years (1765 to 1786) for the Austrian government in charge to abolish restriction on the grain trade. On the other hand, freeing the grain trade benefited mainly landlords and created problems for the poor (Grab 1985).

The belief prevailed that grain shortages meant famine (Gagliardo 1967). Tuscany was probably the first political entity in continental Europe to 'free' internal trade during the 1770s under the control of the State. Here, more than in France, public policy preceded physiocratic theory (Carpanetto and Ricuperati 1987, p. 24). Generally, the various Italian states gingerly pursued the policy of freeing the markets under autocratic leadership.

The economic crisis of 1765-66 induced legislation in Tuscany that ended the prohibition of grain exports (Cochrane 1961, p. 218). Leopold introduced extensive economic reforms in Tuscany and in 1775 he allowed the unlimited export and import of agricultural products.¹³ Between 1766 and 1782 Leopold unified the tolls and customs of almost all of Tuscany, which expanded the domestic

¹² Italy had a backward economy during the eighteenth century, in part because of political fragmentation. It had to wait another three quarters of a century before becoming more than a geographic expression. One can refer only to the various Italian component regions in the eighteenth century. Austria governed Lombardy directly, and Leopold, grand duke of Tuscany (1765-1790) and brother of the emperor of Austria, held the reins of power firmly in his hands and exercised considerable autonomy. The Spanish Bourbons dominated the Kingdom of the Two Sicilies after 1764, with Charles III the ruler (1734-1759). The Republic of Venice controlled the territory adjacent to the city and relied entirely on imported grain supplies. Central Italy was papal territory; its bureaucracy was centralized and absolute.

¹³ In 1768, Leopold also terminated the general farm tax that still persisted in France, that is, he stopped the concessionaires from collecting taxes for the State.

market. Leopold's free-trade policy, unique in Italy, fulfilled the *philosophes'* (as the Enlightenment exponents were known) dream of free trade (Zamagni 1993). "Until well into the 1760s barriers were still regarded as necessary to protect national industry... the prime concern of almost all... the reformers remained the export rather than the domestic market" (Woolf 1991, p. 90).

Rapid urbanization during the Middle Ages of necessity brought public intervention in grain markets (Persson 1996). Often communes purchased and stored grains for emergency use (Waley 1988). The size of its population and limited hinterland required the Republic of Venice, in particular, to control grains through regulated prices, trade, and distribution to protect the lower-income classes from recurring shortages. By 1754, the Republic of Venice allowed free export of grains but still under state control (Lane 1973, Carpanetto and Ricuperati 1987).

Charles VII limited tax farming in the Kingdom of the Two Sicilies (Venturi 1972).¹⁴ The Physiocrats congratulated themselves on their apparent influence on Charles, whose chief minister (1759-1776), Bernardo Tanucci, was a noted Neapolitan reformer. Nevertheless, Tanucci rejected the ideas of Antonio Genovesi, an outstanding Physiocrat, to free the grain trade and eliminate government interference in the economy as a means of preventing such a terrible catastrophe as the famine of 1763-1764 (Venturi 1972). As in France, the major problem remained the segmentation of markets. "All of the writers and reformers [led by Genovesi] agreed on the need to unify the domestic market by removing internal hindrances to the market economy" (Woolf 1991, p.90).

Nineteenth Century

Observers claim the industrial revolution started first in Britain because, among other reasons, entrepreneurs could bet on the winners

¹⁴ Charles VII, King of Sicily and Naples from 1736 to 1759, thereafter became Charles III of Spain (1759-1788).

rather than the losers and therefore move more readily away from the Luddites and Chartists (Mokyr 1990, pp. 256, 260). Therefore, British trade, shipping, and manufacturing responded relatively freely to the market.

The achievement of free trade was the result of a combination of forces of which the ideological pressure of *laissez faire* was one. The interests of merchants and manufacturers, the demand for cheap food, the financial problems of government, the Cobdenite belief that free trade would open the way to world peace, and the changing balance of political power following the Reform Act of 1832, all contributed to the success of the free trade movement (Taylor p. 39).

France and Germany industrialized relatively early, although still later than Britain, while Italy lagged even further. Partially this lag determined the presence of the State during the process of industrialization. In each country (France, Germany, and Italy) the strong state participation in the market during the eighteenth century carried over into the nineteenth century and, as we shall see, well into the twentieth century.

During 1789-1939 France had a national economy in which the State intervened, time and again, to preserve, protect, and defend the ostensible national interest. "The French have traditionally accorded the degree of legitimacy to state intervention that many Britons find it more difficult to accept" (Hall 1986, p. 230). France made strenuous efforts to increase its economic power, aiming at a balanced economy with substantial self-sufficiency.

During the eighteenth and most of the nineteenth century, Germany consisted of a multitude of mini-states that gradually decreased in number. Still, after the defeat of Napoleon (who unintentionally precipitated the eventual German unification) about 50 German political units remained (Pounds 1959, p.190); by 1840 there were still 39 separate states (Fremdling 1983, p.122). The forces of unification (ushered in by Napoleon) continued with a common liberal and low tariff for all of Prussia in 1818 (that itself had internal

tariffs similar to France until that time) and the *Zollverein* (customs union) of all German states (except Austria) in 1833 (Borchardt 1991).

Strongly influenced by the French example, Italy was neither a staunch supporter of *laissez faire* thought nor of policies based on *laissez faire* in the British tradition.¹⁵ Lombardy and the Veneto (still under Austrian control) prohibited child labour in 1843; unified Italy adopted this policy for the nation. Not surprisingly, during the 1830s Giuseppe Mazzini, a political philosopher, complained that the British had not advanced beyond Adam Smith. On the other hand, Camillo Cavour, the first prime minister of the unified Italy, greatly admired Smithian economic policy.

Britain

In Britain, a quasi-free market in grains prevailed from the mid-seventeenth century to the mid-nineteenth century (Fogel 1991). Poor relief expanded in Britain during the late eighteenth century in response to bread riots. In 1846, three-quarters of a century after the publication of Adam Smith's *Wealth of Nations*, Britain repealed the Corn Laws, sliding-scale tariffs on imported bread grains designed to protect the landed interest by keeping grain-farming profitable.¹⁶ The ambivalent feeling towards the government is exemplified by fears of social unrest after the French Revolution. Landlords fared well during the Napoleonic Wars and invested in British government bonds. O'Brien (1959) attributes this 'noble' action not so much to patriotism as to 'protection money' against the Jacobins.

Owing to its large-scale, capital-intensive, and highly productive agriculture, coupled with its dominance of the world's sea-lanes and its willingness to become a net importer of grains, Britain enjoyed low

¹⁵ One may observe a certain retardation in economic thought in the ongoing debate between two political economists, Carlo Cattaneo vs. Giandomenico Romagnosi in 1850; the 1750 physiocratic debate on agriculture vs. manufacturing thus resurfaced in Italy with a century's lag (Cafagna 1989, pp. 10-15).

¹⁶ In 1587, England first regulated the grain market to relieve a dearth crisis (Nielsen 1997, pp. 1-33).

food prices. Yet, British *laissez faire* agricultural policies were responsible for the great Irish potato famine of 1846. When the potato crop failed, policy makers assumed the substitution of potatoes for grain and the availability of funds to purchase grain on the international market (Woodham-Smith 1989, p. 91). In contrast, the French and Prussian governments mitigated the worst consequences of the same crop catastrophe by grain purchases (Woodham-Smith 1989, p. 134).

Not until late into the nineteenth century, could the majority of the British male population vote or participate in policy making. In keeping with the general pattern of the time, economic and political governance by the elite did not elicit a social contract between the governing class and the governed, with little entitlement bestowed on the needy.¹⁷ In the financial crisis of 1810, the British government attempted to solve the problem by creating liquidity for firms through Exchequer Bills. On the other hand, Parliament did not respond to rising unemployment, claiming that it could not interfere in the labour market (Crouzet 1987, pp. 645-7). Perhaps it is not strange that, between 1795 and 1824 (the period of the Napoleonic Wars and their aftermath), Britain had the largest commitment to poor relief in Europe. As noted above, one can infer that the revolutionary mood across the Channel prompted the temporary change of heart.¹⁸

Mainly due to the acute economic and social distress, the Luddite movement found a following. Crouzet (1987) disagrees with Thompson (1968) that Ned Ludd was a revolutionary and that the Luddite movement was a manifestation of a 'conflict of transition.' He argues that Luddism was not a labour movement but rather a conservative movement protesting against technological progress (pp. LXXXVIII-XCI). Yet, the Luddites did appeal to Parliament for minimum wages,

¹⁷ In the late nineteenth century, Britain was by far more democratic than Germany but income inequality was greater in Britain.

¹⁸ According to Lindert (1998), "England stood out as the nation with the largest commitment to poor relief from 1795 to 1824, but did not stand out before 1795 or after 1824" (pp. 102-103). "The English case... fits a pressure-group framework in which redistribution to the poor depends on who has political voice, and on their self-interested perceptions of the likelihood that the poor might revolt or exit from labour supply." But one witnesses the same case of a relationship of voting rights on the Continent (p. 125).

unemployment benefits, and better working conditions. Parliament responded that, by helping the financial markets through Exchequer Bills, benefits would trickle down to the workers rather than disturbing the markets with labour legislation (Crouzet 1987, p. 783).

Social progress surfaced during the first half of the nineteenth century; for example, the Factory Acts, which provided minimum industrial safeguards, appeared in the early 1800s. Pressured by the need to enlarge participation, in part owing to economies of scale in production and distribution, the policy of inclusion gradually enfranchised a larger proportion of the population. The Great Reform Bill of 1832 extended the suffrage to a wider segment of the middle class, and Britain expanded the franchise again in 1867 and 1884. The British reformed the poor law in 1834 to reinforce the free operation of the market and adhered to many of its tenets until well into the twentieth century. However, *laissez faire* in the literal sense of the word never existed in Britain, and state intervention became cumulative after 1832.¹⁹

Central government spending in Britain hardly reached ten per cent of gross national product during the nineteenth century and that only when the country was at war. At other times the central government spent half as much; local governments hardly spent two to three percent of the national product, which is explained by the lack of support for public education at all levels until much later.²⁰ In this respect, Britain lagged far behind other western European nations while France was roughly similar to its Continental nation counterparts, but this is true only when comparing central government expenditures. For instance, German local and regional government expenditures exceeded the central government's while the ratio in Britain, as well as in poorer countries such as Italy, was higher (Cameron 1997, p. 292).

¹⁹ Social progress included: the Factory Act (1833), the Mines Act (1842), the repeal of the Corn Laws (1846), and the Ten Hours Act (1847) thus significant limitations on *laissez faire* existed (Brebner 1948). Also, during Benjamin Disraeli's (Conservative party) tenure as prime minister (1874-1880), acts regulating public sanitation and working and safety conditions in mines and factories were extended and codified.

²⁰ William Gladstone (Liberal party) accepted the principle of state-supported public education during his tenure as prime minister (1868-1874).

France

The French Revolution of 1789 represents the great historical fracture. Not only did the remaining traces of feudalism and serfdom vanish but also a much larger number of mostly arbitrary administrative units supplanted the historic provinces themselves. France emerged in the nineteenth century much more centralized than ever before. In sharp contrast to Britain, the State guided the economy through the period of industrialization (Zysman 1979, p. 52).

French national economic thought and action originated in mercantilism, that is, long antedating the transfer of political power from the monarch and the aristocracy to the bourgeoisie. National economic policies nominally related to national economic theory. "While the English bourgeoisie saw the government as an external force from which little good might come, the French had come to view the state as a necessary agent for the protection of established positions and the creation of new wealth" (Zysman 1979, p. 53). Certainly the French had acquired long since a positive attitude toward the State.

As late as 1820, Geiger maintains that France "had neither a national market nor a market economy" (1994, p. 21). The Restoration (1815-1830) brought to power economic liberals who did not hesitate in practice to find an important role for the State in planning and financing canals. As in the previous century, the lack of entrepreneurs because of unreasonably high economic risks obliged the State to maintain a strong presence, through planning, financing, and managing the canals. This situation continued twenty years later for building the railroads.

The French Classical school contested for influence with the dominant national school and harmonized liberal theory with the national interest. "In contrast to Britain, the French state has been able and willing to influence forcefully in the private sector" (Hall 1986, p. 246). During the brief interlude between 1860-1873, and in keeping with the Cobden-Chevalier Treaty of Commerce, France adhered to a low-tariff policy but never adopted absolute free trade. Indeed, Nye

concludes that Britain hardly constituted a bastion of free trade and that French tariffs were actually lower. He contends: "French average tariff levels were, surprisingly, below those of Britain throughout most of the nineteenth century, even after the abolition of the Corn Laws and before the 1860 Treaty of Commerce" (Nye 1991, p. 23).²¹

With the exception of Britain, protectionism triumphed at the onset of the world agricultural depression of the 1870s. Following the high Meline Tariff of 1892, France entered the twentieth century with a controlled market economy, hardly showing the same reverence as the British for free trade. "The Gallic forces of liberalism combined a certain reserve about competition with a protectionist state" (Kuisel 1981, p. 295).

Germany

German economic integration developed quickly during the nineteenth century beginning with a customs union, although some observers argue that the *Zollverein* (customs union) stemmed more from political than economic necessities (Dumke 1991). Nevertheless, liberalization among the German states did not translate into freer trade outside the customs union. Friedrich List, a German economist, preached economic nationalism and the protection of infant industries. His argument was politically motivated, although overtly economic, with List favouring free trade only among equals; however, at the time Germany lagged far behind Britain (Tribe 1987). Industrial development resulted from a combination of private entrepreneurial initiatives and market-expanding policies adopted in Prussia and elsewhere. This led to economic integration and political unification.

Generally, European nations shifted from mercantilist systems of poor relief to the modern welfare state, starting with Bismarck during the 1870s. The newly-created German State did not deliberately adopt a *laissez faire* policy of the British type (Pounds 1959, p. 191). Pragmatic in the sense that he did not care for the liberals, Bismarck

²¹ Grantham (1997) infers that French trade policies did not significantly affect the economy.

often boasted of his economic liberalism. As such, Bismarck believed in a social role for the State (Mommsen 1972, p. 363). Bismarck's primary goal was to achieve a united and strong Germany (Bohme 1966, p.187). By 1879, Bismarck had been converted to protectionism, apparently through a political deal between Rhineland industrialists and East Prussian Junkers. To some, it seems that Bismarck appeared more conservative than he really intended to be. One fact remains clear: Bismarck was ready to use the power of the State to achieve industrialization (Hallgarten 1974, pp. 54-68).

In the 1870s the new German empire wanted to copy the French "*conseil superieur de commerce de l'industrie et de l'agriculture*" to achieve a momentum in the process of industrialization (Bohme 1972, p. 338). The German State played a critical role in the development of manufacturing. "Not only was there a well-established mercantilist tradition, but many leading industrialists in the early stages of German development ascribed a major role to the state." As early as 1737, the Prussian government supervised coal mining (Kellenbenz 1976, p. 216). Later both France and Germany had government-owned pig-iron smelters. Between 1870 and 1918 a symbiotic relationship developed between industry and the State; the German State aimed at curtailing competition, even going so far as to make cartels legally enforceable (Wengenroth 1997). Moreover, at the end of the nineteenth century, the State founded research and development institutes (Braun 1990).

One should recognize the critical importance of German regional differences. The *landers* pursued practically independent policies quite different from most countries in Europe (Lee 1988). Even though the role of the State at the time was ingrained, it varied considerably from one region to another. In Prussian Silesia such basic industries as mining and iron works were government-owned and operated. Gradually, Germany became an economic power, owing in large part to the overt support of the State during the push for industrialization (Hallgarten 1974, pp. 30-53).²²

²² Hallgarten also remarks that industrial power might have accompanied military strength (1974, pp. 30-53).

Italy

The Italian liberalism of the 1860s is tainted by the nationalism of an insecure newly-unified country. Politicians and academicians did not see any contradiction between State intervention and *laissez faire* when particular interested groups needed to be defended (Cafagna 1989, p. 164). Indeed, Quintino Sella, an industrialist as well as a deputy in the Italian parliament, argued with the Cavour government that "the industrialists have, as all other classes of citizens, the right to government protection" (Cafagna 1989, p. 227).

A latecomer, Italy lagged behind the early industrializers and, if anything, the gap widened so that Italy was further behind in 1914 than in 1861; in 1913, Italy's national income was only half that of France. Also, as a late comer, Italy was too poor to have many choices; the State had to take direct action. Cafagna lists various actions of the Italian State to encourage economic development: promotion of large-scale infrastructures, direct promotion of heavy industry, protection of various interests groups whenever needed, subsidies, moderation between banks and industrial investors, and reorganization of an entire sector in trouble (1989, p. 377). This way the State became a dominant actor in the market place. Indeed, we agree with those who maintain that "it would probably have been impossible for Italy to acquire a modern industrial apparatus without a strong government intervention" (Amatori 1997, p. 274). Yet, a serious attempt was made to mitigate the fallout among the working poor that resulted during early British industrialization.²³

Giovanni Giolitti (Left Centre Prime Minister 1903-1905)...
[pushed] legislation... to regulate conditions of employment and contracts of service. Tenders for public works were accepted from worker' cooperatives, to the great disgust of richer contractors (Mack Smith 1997, p. 206).

²³ To be sure, by 1914 British workers not only enjoyed a higher standard of living than Italian workers but also benefited from an array of social legislation which may well have equalled if not exceeded that available in Italy.

According to Bonelli, the Italian process of industrialization was not 'natural' (i.e., through market forces) but instead occurred through State action that succeeded in directing agrarian accumulation towards industry. This is why Italian capitalism can be viewed as State capitalism even before the State (as happened in the twentieth century) took an active role in the market place (Bonelli 1979, p. 1204).

As early as 1813 the Kingdom of the Two Sicilies attempted to industrialize through State support. After unification, the strong political right, composed mainly of land owners, the *latifundisti*, discouraged a policy of industrialization. Eventually, towards the end of the nineteenth century, the bourgeoisie and industrial interests captured the government and pursued a policy of industrialization in which the State played a primary role (Fenoaltea 1973, pp. 140-144). Some observers define the Italian model as 'precocious State capitalism,' because the State at the end of the nineteenth century broke the rules of the market by inserting itself as the main economic actor in the market place (Amatori 1997a, p. 255). However, others view the Italian success story more as a result of market forces rather than the often counterproductive public policies (Federico 1996).

The State long had monopolies of salt, tobacco, and matches and, moreover, had owned the iron mines of Elba. As a consequence of the unification process, Italy acquired debts from the component states and confiscated church properties and private estates. During the 1870s a debate on State intervention raged; ultimately the State furnished social overhead capital to overcome the understandable reluctance of would-be investors.²¹ Some historians claim that until 1900, public expenditures rose rapidly, taking an increasing share of national income, thus crowding out private investment (Toniolo 1990, pp. 78-80). Others note that, while it is true that the State shared a large part of the national income, the State not only subsidized firms but also instituted a policy of purchasing, whenever possible, from domestic business (Bonelli 1979, p. 1236).

²¹ By 1874, a great debate took place on the role of the State in the Italian economy. A leading economist, Luigi Luzzatti, was influential in the government's interventionist policies (Zamagni 1996, p. 112).

During 1860-1882, the Italian government operated a quasi-private concern, the *Societa anonima per la vendita dei begni del regno* (Corporation for the Sale of Assets of the Kingdom) to realize public assets (Kindleberger 1995 citing Clough 1964). Although adhering to free trade during 1860-1878, thereafter the State resorted to high protective tariffs, especially after 1887, to foster a modern industrialized economy. To be sure, some of the tariffs were meant to be a source of government revenue as well as protection, as was the case also in France and Germany (Federico and Tena 1998).²⁵

Furthermore, massive and guaranteed State purchases, subsidies, and bounties sustained the metallurgical industry, shipbuilding, and the merchant marine. A prime example was the government financing of the Terni steel mill during the 1880s to discourage steel imports needed by the railroads. In 1912, Italy founded the National Institute for Insurance because the private sector could not or would not enter this sector. Owing to subsidies, in one form or another, enterprises seldom made decisions for economic reasons alone; rather they acted to obtain a better bargaining position with the government. In short, the State became an agent for the 1896-1913 spurt. Amatori (1997) maintains that because of the government's role in the market, through protectionism, financial support to enterprises, and industrial rescues, private firms lost an important market freedom, that of declaring bankruptcy.

The Railroads and the State during the Nineteenth Century

The coming of the railroads illustrates the dichotomy between Britain and the Continent regarding the role of the State in a unique way. One can easily observe the contrast between British and continental ideology in implementing transportation policies. In addition to ideology, Britain is a smaller and more compact country. Furthermore, Britain industrialized significantly before the coming of

²⁵ Earlier, Cavour favoured lower tariffs for consumer goods to encourage competition and lower prices in order to improve the real income of workers. Business people were afraid to face lower tariffs because competitive forces and diminishing treasury revenue might induce replacement of the tariffs with internal taxes (Cafagna 1989, pp. 229-232).

the railroads, which reduced risks by assuring entrepreneurs' returns from adequate freight traffic. The mature capital market facilitated mobilizing funds for long-term risky ventures such as railroad construction.

On the Continent the weak private capital market could not and did not mobilize the needed funds for such high-risk capital-intensive ventures. Continental entrepreneurs had to assume high risks, on huge investments, since the process of industrialization was barely under way. Therefore, the individual states, France especially, but also the German and Italian states — before and after unification — had to invest to accelerate the construction of railroads or not have railroads at all.

In Britain, private enterprise built the first canals, and eventually the same model was adopted for the railroads (Hawke and Higgins 1983); these required state charters, occasionally subsidized, and developed essentially haphazardly and fragmented into small units largely by private unregulated individuals and/or enterprises (Pollins, 1971). Parliament indicated that railroads might become state-owned after twenty-one years but a Royal Commission of 1865-67 reversed this (Hawke and Higgins 1983, p. 184). Railway policy in Britain evolved essentially by leaving all critical functions to the private sector. The government reacted reluctantly; by 1890, it outlawed rate discrimination, and played a role in forthcoming mergers (Dobbin 1994).

On the European continent...[in contrast to Britain] the railroads were considered more as a public service and a railway rate a kind of tax, which should be levied according to generally accepted principles of taxation (Schram 1997, p.17)

In France, the State from early on took a hand in promoting and regulating railroads; particularly, the State planned that lines radiated outward from Paris like the spokes of a wheel (Smith 1990). France debated public versus private ownership and, while private ownership continued, regulations increased and the State even assumed ownership of bankrupt railroads to keep them in service. The State was careful to maintain overall control of the transport system (Caron 1983, p. 28).

French railway policy encompassed all major functions: planning, finance, coordination, pricing, and competition. Before the Revolution France professionalized the civil service and the State built significant roads and canals for military reasons; the Revolution did not precipitate a break in French economic policy-making. "The state later took charge of the railways more by habit than by design" (Dobbin 1994, p. 224). France promulgated a national railway plan in 1842 and amended it in 1852, 1859, and 1883. Striking a balance, France provided a compromise of private construction with the State providing more than half the funds (or as much as financial resources permitted) and private capital furnishing the remainder. Consequently, nationalization merely awaited the charter's expiration. Path-dependence defined the realm of possibilities (Dobbin 1994).

Owing to its extreme political fragmentation, Germany benefited little from the canal era during the nineteenth century. When railway fever spread, construction policy varied from state to state but private interests held the upper hand. In Prussia during the early stage before the 1840s, all railroads were built by the private sector, while, on the contrary, Baden built and operated railways (Dunlavy 1990).

There were instances of states that vehemently opposed private railways. A high Bavarian government official "announced [in 1843] that he will never allow such an important institution as the railway to fall into private hands" (Kitchen 1978, p. 50). Railway construction needed coordination among the numerous states that entailed greater interstate cooperation. By unification, Bismarck established the Imperial Railway Office, using routes and subsidies as instruments of economic policy (Cameron 1997). Shortly afterwards, in 1879, Germany nationalized the railroads (Fear 1997). In Europe Germany and Italy were the first countries to have a major fraction of their railroads owned and operated by the State.

To be sure, "the dominant ideological influence of economic liberalism... made many of the Italian ruling class reluctant to allow the state a major role in the construction and management of railways" (Schram 1997 p. 23). But, Italian railway construction lagged mainly owing to the lack of capital; the first regional networks were built in

Piedmont and Tuscany. In the Veneto, before unification, between 1835 and 1852, the Austrian government provided needed capital for railroads (Falasca 1997). The Italian state(s) adopted a system of concessionaires and relied on foreign capital more than any other continental country (Fenoaltea 1983).²⁶ This way, the State overtly encouraged private enterprise and ownership by furnishing half the construction costs while still controlling and regulating the railways through continuous subsidies. By 1865, a regional system of privately (subsidized) companies evolved and twenty years later (1885) the government entrusted two companies with the operation of the mainland railways (Schram 1997).²⁷ It appears that the Italian State policy supported a high-risk railway system before nationalization in 1905.

Twentieth Century

While the characteristics of Britain and the continental countries varied in degree during the last two centuries, the cultural core did not change appreciably, irrespective of the changing economic circumstances. During the twentieth century, the dichotomy between the Anglo-Saxon and the Continental approach to the role of the State in the economy remained, by and large, unchanged.²⁸ Cataclysms plagued the first half of the twentieth century; World War I, the Great Depression, and World War II wrought havoc in the implementation of economic policies. These events required short-run solutions for economic and often physical survival and forged today's world.

The resurgence of nationalism after World War I and the dissolution of several continental empires coupled with the Great Depression increased both tariff and non-tariff barriers. World foreign trade collapsed much more dramatically than world gross product. In an effort to restore the flourishing international economy existing prior

²⁶ Piedmont from the beginning operated most of the railroads.

²⁷ Some privatization was not ideological but was done because of the short-run need for cash by the Italian State (Schram 1997, p. 26)

²⁸ By the mid-twentieth century the Continent attained rates of economic growth and levels of per capita income comparable to Britain.

to World War I, the major world trading partners signed the General Agreement on Tariffs and Trade in 1947. In addition, in 1957 six West European countries (including France, West Germany, and Italy but not Britain) formed the Common Market, which culminated the process of economic integration under way since 1815. Membership has increased gradually to include Britain and other leading European nations, which have partially surrendered their ability to protect domestic industries for the common benefit.

Table 1 indicates that, in 1960, Britain had the highest public-sector employment, fifteen per cent as a share of the total, and it peaked at twenty one per cent by the late 1970s. British public-sector employment declined slightly during the 1980s and the 1990s to fourteen per cent by 1995. By comparison, in France public-sector employment increased from thirteen per cent in 1960 to twenty five per cent in 1995; in Italy and Germany the percentage stood at eight in 1960 and sixteen per cent in 1995. It is difficult to infer the scope of the State from data on public employment, which generally includes employment in the public

TABLE 1 - Public Employment as a Percentage of Total Employment					
	1960	1970	1980b	1990d	1995d
Britain	15.0a	19.6a	21.1	19.4	14.4
France	13.0b	14.8c	20.0	22.8	24.8
Germany	8.0a	10.9a	14.7	15.1	15.8
Italy	8.0b	12.5c	14.5	15.6	16.1
(a) OECD 1990a; 1981 (b) Ackley 1987; OECD 1990 (c) 1977 data; Ackley 1987 (d) OECD 1997					

TABLE 2 - Public Expenditure as a Percentage of Gross National Product					
	1961	1970	1980	1990	1996
Britain	33.4	37.3	43.2	40.3	42.4
France	33.7	38.1	46.6	50.5	54.6
Germany	33.8	38.5	48.0	45.3	50.0
Italy	29.4	32.1	42.0	53.4	52.0
Somers (1998); Note: For 1961, Ackley 1987.					

educational system.²⁹ Statistics on public expenditure seem to be more revealing.

Table 2 shows that between 1961 and 1996 public expenditure, including transfer payments, as a share of GNP, increased in all western European countries but in Britain increased to forty two per cent while France, Germany, and Italy attained fifty or more percent. On the Continent the states shared equally with the private sector in spending. It seems surprising that public expenditure in Britain reached forty two percent.

Britain

Despite the heritage of Adam Smith and those economists who followed in his wake, the industrial revolution and the extension of the suffrage perceptibly augmented the British government's regulatory activity at home while decreasing it abroad. Britain became a more-or-less free-trade country by 1914 but the great contraction (1929-1932) precipitated an abrupt change of course. In 1931, Britain abandoned the gold standard and in 1932 replaced free trade with 'imperial preference'.

The consensus accepted the necessity of having the State intervene increasingly to correct specific market failures and therefore regulate such matters as minimum wages,³⁰ maximum hours, and child labour as well as working conditions. During the 1920s the Bank of England covertly acted as the lender of last resort for the steel and textile industries (Checkland 1983, pp. 315, 318), and in 1929, salvaged the *Banca Italo-Britannica*, a British bank located in Italy with some Italian participation (Kindleberger 1995). Yet during the 1930s depression, when France responded with massive interventionist measures (including the nationalization of railroads in 1936),³¹ Britain

²⁹ Data of the 1980s reveal that expenditures on education as a share of total public expenditures were : 21.6 for Great Britain, 20 for Germany, and 29 percent for Italy (Ackley 1987, p. 397).

³⁰ In 1998, Britain finally adopted a national minimum wage policy.

³¹ In Britain, railroads had been centralized for a long time resulting from a sequence of mergers and therefore they were not nationalized as an instrument of combating depression.

minimally accepted public-works programmes to strengthen a policy dependent on the self-adjusting market mechanism to revive the economy (Hall 1986a).

In Britain, the State became more involved in the economy during World War II and the immediate post-war period. The ideas of John Maynard Keynes permeated British professional and public opinion. No longer did either accept mass unemployment as inevitable, especially when Keynesian contra-cyclical policy seemed available. Although continuing to influence the thrust of the British economy, Britain proved to be the most reluctant planner; the triumph of the socialist ideology was fleeting. The political left came to power in 1945 and, for mostly ideological reasons, pursued the nationalization of selected industries. The State nationalized: coal (a sick industry), railroads, civil aviation, electricity, gas, and the Bank of England as well as steel (de-nationalized by the Conservatives and re-nationalized by Labour in 1967, and privatized again by the Conservatives in 1981). Such direct state intervention in the economy was essentially novel for Britain, which had stressed that individual welfare would automatically lead to collective welfare.

Britain remains a market economy in most aspects and according to most criteria. With prosperity, the mood changed rapidly with the Thatcherism of the 1980s, minimizing the role of the State in the economy. John Wells (1991) best epitomizes the Thatcherite philosophy:

The government's aim was to bring about a significant reduction in the role of the state in economic life and in the resource-allocation process in the belief that market forces, once liberated from the shackles of the state intervention, would trigger an unleashing of capitalists' creative animal spirits and usher in a renaissance of British entrepreneurial talent and risk taking (p. 174).

During the eighties government policies included: the virtual elimination of regional grants, financial deregulation, reduction of the share of public expenditures in the economy, privatization and labour

market reform aimed at weakening labour unions (OECD 1991).³² Yet, the economy has been regulated much more comprehensively in this century than two centuries before. As then, market and government failures in the form of frictions and incongruities remain apparent. Deregulation made possible the downfall of Barings Bank and unions weakened and lost membership but Britain reluctantly maintained the national health service and other entitlements.

France

As we mentioned above, after 1945, in Britain, the State increased its role through contra-cyclical policies; in France, while nominally accepting free trade, the State intervened in the economy much more comprehensively than in Britain.

Immediately after World War II, the French tended to hold liberalism responsible for recurrent economic ills. Indeed, *laissez faire* and the liberalism of the nineteenth and twentieth centuries were tainted. "There was a certain continuity between the *ancien régime* and the liberal order ...the interventionist reflex of the State was in some ways as old as Colbert and the monarchy" (Kuisel 1981, pp. 9-10).

Irrespective of who held power after World War II, and for diverse reasons, France nationalized coal, gas, and electricity, the Bank of France, and the principal banks and insurance companies.³³ Cognizant of France's place in history, the State subsidized and operated industries, for example, aluminum, to help maintain that status. "In France, where the state had been the caretaker of society, government control of the allocation of domestic credit and Marshall Plan funds

³² It appears that some of the goals of the eighteenth-century Anglo-Saxon institutional pattern have been largely accomplished in twentieth-century Britain.

³³ For an atypical case, Louis Renault, who had built the leading French automobile company, was incarcerated after liberation on charges of collaboration with the Nazis, and died while awaiting trial. The French government confiscated the remaining industrial assets, and set up the state-controlled *Regie nationale des usines Renault* in 1945. The State still owns over 40 per cent of the company's stock. Some other companies that were nationalized immediately after World War II and later privatized are: Saint-Gobain, Thompson and Rhône-Polenc.

permitted the bureaucracy to stake out a new role as architect of the renovation" (Zysman, 1979, p. 12). In 1948, to enhance the bureaucracy, France founded the National School of Administration, an elite institution.

Jean Monnet was primarily responsible for the introduction of national economic planning in post-1945 France. The planning process is an exercise *à la française* that has made the State a partner in the market place; the Plan's bureaucracy expanded over the last half a century from six committees to over one hundred committees. The Plan has been based on a model that contains about 1600 equations and 4000 exogenous parameters (Caron 1981, pp. 248-9). The Monnet Plan for the modernization of the French economy called for channeling the post-war recovery effort towards long-term goals with the State taking a leading role "through cheap investment capital, accelerated depletion allowances, special tax reductions and outright grants" (Cohen 1969, p.21). In essence, France had an '*économie dirigiste*' that fused indicative planning with benevolent coercion.

Charles de Gaulle believed that the Plan would unify the nation by making it possible to coordinate economic policies (Caron 1981, p. 47). Some critics argued that the Plan did not influence French economic growth in the sixties and seventies. Others disagreed citing a poll taken during the Fifth Plan. Eighty per cent of the two thousand enterprises polled were aware of the objectives of the Plan; these enterprises relied on the Plan for sales projections and for scheduling production (Caron 1981, pp. 248-249).³⁴

Germany

Following the debacle of World War I, the German economy could not possibly recover. When the Deutsche Bank failed in 1931, the

³⁴ True enough, immediately after the Second World War, the British for a little while attempted to condition the market via a certain planning directives. Since 1946, even the United States has had what some consider an annual plan. The Employment Act directs the President to have a Council of Economic Advisers that reports to him on the condition of the economy and recommends appropriate policies.

entire financial system collapsed; in a rescue attempt the State injected cash by purchasing equity in the banks but to no avail (Moss 1997). This failure brought in its wake the rise of Nazism with dire consequences. Nazism introduced the Corporate State where the State was, overtly or covertly, in control of resource allocation.

The Nazi philosophy for the type of the economy they introduced reflected Germany's historical legacy. The views of intellectuals and authorities favoured the establishment of strict social and political structures under the leadership of an elite group (Angresano 1995, p. 151).

Immediately after World War II an ideological vacuum emerged. The United States, in *de facto* control of West Germany, was in the midst of a dilemma. In principle, it wanted to introduce a modified *laissez faire* economy. This principle was tempered by the precarious conditions of the West German economy and by the historical background of the formerly powerful German cartels. Therefore, in practice, the United States opted for the public sector in conjunction with the Allied Command superstructure to guide the economy towards revival; the new centre-left German leadership accepted the idea. This approach initiated a new symbiosis between big business and the State (Radkau 1974, pp. 483-501).

In Germany, from the beginning of the industrialization process until the end of World War II, the State not only tolerated but also encouraged cartels. Ludwig Erhard attempted to legislate them out of existence in 1952 against strong opposition from industrialists. When the law finally passed in 1957, Erhard could not recognize his ideas because a multitude of loopholes allowed the continuation of cartels. Organized labour became stronger but in a sense lost firepower through a new policy of co-determination; this policy allows labour to participate in corporate decisions, weakening their independence. One could recall that, in Italy during the nineteen twenties, Alfredo Rocco (a Fascist jurist) maintained that cooperation among classes should replace antagonism, the tenet of the corporate state.

Others view co-determination as a continuation of Bismarck's attitude based on a liberal and paternalistic philosophy. Note that the Work Councils have existed in Germany since 1891. In general, after the Nazi cataclysm, Germany desired to revert to Bismarck's search for social peace with the State as an important partner, that is, the social market economy. The consensus seems to be that the self-regulating market economy could not possibly solve the problems of that time. Yet, the State was reluctant to interfere with market forces until the mid-1960s (Braun 1990). As some economists view the pre-mid 1960s period, the relationship between the private sector and the State left little room for the State (Abromeit 1996); nevertheless, the presence of the State in the market place was palpable and effective (Hardach 1979).

As mentioned above, the State has been quite directly involved in the market place; by late 1960 the government had an interest in over three thousand enterprises even after some privatization (Hardach 1979). In certain sectors, such as utilities, the role of the government has been more obvious. Big business, while reluctant to be overtly government subservient, stood ready to accept government financial and other support as a right. But usually the government-owned or partially-owned enterprises have enough autonomy to operate in the market place (Hardach 1979).

Italy

In Italy, as elsewhere, the State intervened significantly during World War I in the management of supplies and the increase of production. With the cessation of hostilities, Italy terminated the war economy. However, the Fascist permanent war economy (1922-1943) augmented the State's role. As a key element of autarky, in 1925 Italy initiated a "grain battle" that sought self-sufficiency in providing bread for the masses.

The Italian State, in contrast to most European countries, has played a role of mediator and pacifier among the social classes, the oligopolies, labour unions, and the public at large. It seems that,

regardless of ideology, most Italians have accepted the role assumed by the State (Bonelli 1979, pp. 1250-4).³⁵ Long before the 1930s the relationship between the banks and the State had been synchronized for mutual benefit. The banks helped private organizations or subsidiaries to invest in new ventures; whenever these investments failed, the State bailed the banks out. Apparently, this diminished risks and uncertainty and the moral hazard allowed financial adventurers to invest in doubtful projects that often paid off in the long run. One could say that in Italy capital accumulation was a continuous process led by the State (Bonelli 1979, p. 1231).

During the world banking crisis of the Great Depression Italy had no choice but to massively interfere in the market. In 1933, Italy organized *Istituto per la ricostruzione industriale* (IRI, The Institute for Industrial Reconstruction), a holding company, to rescue the banks, which held industrial securities. In 1936, Italy nationalized the Bank of Italy. Many major banks became state owned and the State has been the principal source of investment and the keystone for financial intermediation. By 1939, largely as a consequence of *ad hoc* policies, IRI controlled 80 percent of Italy's shipping and shipyards, 75 percent of iron and 50 percent of steel production. By the mid-1930s Italy had the highest percentage of state enterprises in Europe (Romeo 1963). IRI remains the largest single entity in the Italian economy.

In 1958, Italy was the least developed nation of the founding six-nation Common Market. As in the last century, the State had to play a critical role in forging economic progress. Italy underwent a second industrial revolution between 1951 and 1971 (L. De Rosa 1986). During this period, the State continued to expand its ownership of enterprises.³⁶ In 1953, Italy formed *Ente nazionale idrocarburi* (ENI, The National Petroleum Agency). ENI took over the vestigial state oil-prospecting agency set up as part of the Fascist policy of autarky, and eventually

³⁵ Under Fascism the role of the State as a moderator backfired when it deliberately destroyed the labour movement (Bonelli 1979, p. 1254).

³⁶ Small and medium enterprises remained private, sheltered by their very nature (Prodi and di Giovanni 1992).

discovered natural gas deposits beneath the Po Valley.³⁷ The State bought the telephone system in 1957 and privatized it in 1995; the State nationalized electrical power production in 1963 and vowed to privatize it during the 1990s. After World War II in both France and Italy, the State has been able to interfere in the labour market since state enterprises are prime employers in basic industries (Toniolo 1998).

The Italian State, through IRI or otherwise, aided large-scale enterprises (Prodi and di Giovanni 1992). As a result, it has been estimated that more than 40 percent of Italy's GNP is produced, owned, or controlled by the State economic enterprises that compete with private enterprises. By World War II the public sector was in charge of fifty percent of the nation's productive economy (Mack Smith 1997). Between 1930 and 1970, the State through ownership and/or control of big business "tried in an impossible way to reconcile market and social goals" (Amatori 1997, p. 317).

Even in the absence of the French type of indicative planning, the State has been able to exercise considerable influence over the pace and direction of the Italian economy. Recent efforts at the planned privatization of Italian public enterprises have been largely ineffective. The capital markets are rudimentary and the state enterprises have crowded out the available private ventures.

In the presumed private sector, "firms in Italy tend to favour cooperative arrangements which are normally government sanctioned" (Langlois and Robertson 1995, p. 125). Cooperation also means bank loans to private businesses are guaranteed by the State. Since the 1980s the so-called "third Italy" sustaining the economic expansion has consisted of government support of cooperatives of small firms to share resources in a competitive market. "The government sponsorship of collective action in Italy is a reinforcement of a socialist ethos that has been the dominant attitude among small producers in Emilia-Romagna and Tuscany for nearly a century" (Langlois and Robertson 1995, p. 126).

³⁷ "By the beginning of the 1960s the image of ENI was that of a pivotal element of the 'Italian economic miracle,' a company run in the best interest of the nation" (Amatori, 1997a, p. 262).

Three political movements were instrumental in strong public intervention in Italy: Giolitti at the beginning of this century, Mussolini during the inter-war period, and the Christian Democrats after the 1950s (Amatori 1997, p. 274). Allegedly Italian *étatisme* (a state-backed market economy) encouraged industrial development.³⁸ Corporativism depends on internal coherence that does not apparently exist in Italy. Yet, Locke (1995) despaired that “the new liberal path is also not viable given that it would exacerbate rather than resolve the current problems, challenging the advanced industrial state” (p. 188). By the 1980s the Italian State became the most important actor in the market; it had a direct hand in finance, the labour market, and in income distribution (Arcelli and Micossi 1997).

As one of the founders of the Common Market, Italy has increasingly opened its economy to the winds of fortune. In Italy, nearly all political factions nominally favour the market economy; “what emerges instead are measures that, far from fostering more individual responsibility, increase the ‘demand’ for state intervention that characterizes individuals and institutions in this century” (Savona 1995, p. 87). Amatori suggests that since World War II the State has been playing a mediator role that backfired when bureaucrats responsive primarily to political needs and secondarily to economic development took over the organizational structure.

This structure is best represented by the relationship of the State with the *Mezzogiorno* (the Italian South) that remains Italy’s Achilles heel. While other nations have less-developed regions, Italy’s remains the classic example, providing the standard by which all others are judged. After decades of doing relatively little (despite the 1904 and 1906 laws favouring southern development), since 1950 Italy has acted to decrease the socio-economic gap between the South and the rest of the nation. During 1950-1984 the State, through the *Cassa per il Mezzogiorno* (Fund for the South) and through various ministries, supplied capital, subsidized enterprises, furnished infrastructure, and

³⁸ With the advance of high technology and the globalization of markets, some observers question the continuance of *étatisme* (Locke 1995).

adopted other policies.³⁹ It succeeded through this process in developing a strong State dependency resented but embraced by everyone (Schachter and Engelbourg, 1995).

As Paci puts it, "there is scarce autonomy of civil society from the State in our country, which has been described as "clientelistic dependence" and whose traits were evident since the first post-unitarian decades." (1989, p. 20). An Italian historian contends that, on the one hand, the Italians view the State as a *sportello pagatore*, a paying window, always ready to finance individuals, corporations, labour unions or any organized group; on the other hand, the State participates directly in the market creating grave distortions (Castronovo 1997, p. 97). To be sure, the State's regional policy definitively constitutes the antithesis of *laissez faire*. While criticizing the specifics, both economists and the public at large justify the reliance on the public purse. Even Luigi Einaudi, an internationally renowned economist as well as a persuasive advocate of traditional economic liberalism, never favoured allowing the Mezzogiorno to sink or swim without State aid.⁴⁰

Conclusions

The continued dualism between the Anglo-Saxon and the Continental institutional models, i.e., the role of the State in the economy, froze at least at the entry of the industrial era, if not before. The power of path dependency has been pervasive and powerful. Recently, Paul Streeten characterized French planning as indicative and British planning as *subjunctive* (Kindleberger 1995).⁴¹ After World War II, the French blamed liberalism for the nation's problems; in

³⁹ While the "Cassa" was terminated in 1980s, other forms of transfers to the South have survived to this day.

⁴⁰ The Italian institutional arrangement is replete with contradictions. "The Italian development model is based on liberalism without rules for an authentic free market, public intervention without an inkling of planning and a principle of solidarity without the existence of a social State" (Castronovo 1997, p. 99).

⁴¹ While ambiguous, in indicative planning the State policies are directed to implement the plan whereas in subjunctive planning such policies do not exist.

contrast, the British blamed the State. Yet, in Britain the decisions concerning the level and allocation of investment have been largely the product of private market forces. While the British cannot entirely criticize the State for their decline, the Continentals cannot claim that only the State caused the post-war expansion.⁴²

In all mixed economies, public policies play a role in influencing private economic activity. The Continentals argue that the State is and should be an endogenous player in the market place. By recognizing this partnership - rather than seeing the State as an antagonist - Continental Europe (as exemplified by France, Germany, and Italy) welcomes the State's overt cooperation in the economy and society. Italy's example with a polycentric government that emphasizes *clientelismo*⁴³ represents just an exaggerated version of what happens in every relationship between State and society; the score card is checkered.

On the other hand, the institutionalization of anti-State feelings has remained deeply ingrained in the individualism of Anglo-Saxon culture as the adoration of *l'état* lingers as a feature of the French, German, and Italian cultures. Centuries of tradition have left their mark on both sides. The nature of the British economy may well have justified a greater reliance on the market. Historically, the specific patterns varied but maintained the same relationships.⁴⁴ In spite of the process of economic and political integration that has taken place in Western Europe since World War II, intellectually and institutionally the Anglo-Saxon culture continues to differ from the Continental culture.

⁴² One does not have to conclude on the merits of the two models to note that, by 1996, the per worker and per capita product were substantially higher on the Continent than in Britain (*The Economist* June 5th 1999).

⁴³ *Clientelismo* could be defined as a situation where it is normally expected that administrators or bureaucrats cater to special interested individuals or groups.

⁴⁴ Under these circumstances, one may wonder if cultural divergence will diminish with the implementation of the European Union. To nobody's surprise, when the members of the European Union signed the Maastricht Treaty in 1991, Britain initially refused to adhere to clauses on social policies (eventually it concurred); it opposed the role of the State in the market place.

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