

# Democratization and Trade Liberalization in Industrial Capitalist Countries, 1830s to 1930s

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Are democracies more likely to pursue free trade than autocracies? Turn-of-the-last-century liberals believed that democracies were more likely to engage in trade than absolutist monarchies (Doyle 1986:1161; Thomson 1966:462). “The majority consists of bread eaters,” wrote the French economist Frédéric Bastiat (1862: 102–3). The argument according to which democracy is less bellicose than autocracy does sometimes rest on the assumption that democracy is more prone to commercial intercourse than autocracy.<sup>1</sup> The electioneering work of the Anti-Corn Law League in Britain in the 1840s confirmed English radicals’ belief that the franchise would mitigate corruption and rent seeking. However, subsequent history falsified these expectations. The simultaneous moves of autocratic France toward free trade and of democratic United States toward protection confounded any simple association between regime type and trade policy. No one has found a straightforward relation between democracy and trade.<sup>2</sup> The present essay revisits the liberals’ insight.

My argument is not that democracies are more open than autocracies but that each type of regime copes with political adversity differently—while autocracies spawn rents, democracies clip them. Democracies differ from autocracies in terms of the minimum-required support, typically larger in democracies than in autocracies. In both regimes, the incumbent will typically try to handle an increase in political contestation by enlarging the support group. In autocracies this enlargement can be managed by extending existing rents to the newly coopted group. In democracies it cannot, mainly because of the smaller pro-

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<sup>1</sup> For a criticism of this line of argument, see Gowa (1995: 519).

<sup>2</sup> With one recent exception. Geoffrey Garrett and Peter Lange (1995) argue that democracies are quicker to adjust to changes in their economic environment than autocracies because of the popular constraint.

portion of the politically excluded population who pays for the rents. For instance, the inclusion of the bourgeoisie along the aristocracy into the monarchic ruling coalitions of the nineteenth century could be achieved by raising taxes on peasants, workers, and craftsmen. However, an expansion of the participating electorate in modern democracies cannot be accomplished by extending existing rents to new voters (who else would pay for the rents?) but requires instead that existing rents be cut (to lower the burden borne by new voters).

Because the tariff consistently was the most important source of rent before World War II, the nature of the political regime should have an observable impact on tariff levels. Whenever confronted with a surge in political contestation, an autocracy should increase protection, whereas an electoral democracy should reduce it. Although this proposition can be tested in principle, the empirical material, qualitative in nature, does not lend itself to a test proper. The goal of this essay is merely to offer an interpretation of historical facts (in seventeen countries from the 1830s until 1930s) capable of lending plausibility to the present approach to tariff making.<sup>3</sup>

The present theory pursues the institutionalist line of inquiry already explored by Rogowski (1987) and others (see Rogowski 1995 for a survey). This approach offers an alternative to ideational accounts (Goldstein 1993; Goldstein and Keohane 1993; Hall 1989; Kindleberger 1975), hegemonic stability (Keohane 1984; Krasner 1976; Lake 1993), and especially coalitional approaches (Baldwin 1984; Ferguson 1984; Gourevitch 1986; Magee, Brock, and Young 1989; Milner 1988, and Rogowski 1989). Coalition theories posit that the trade preferences of producer groups reflect their position in the international economy. Coalition theories make the following generic prediction: If the export-oriented group is politically dominant, the policy outcome will be openness; whereas if the import-sensitive group is dominant, the policy will be protectionist. Although fundamentally (if not trivially) correct, this prediction captures only part of the story.<sup>4</sup> The present work points to another, perhaps equally

<sup>3</sup> The 17 industrial capitalist countries are Britain, the United States, Canada, Australia, New Zealand, France, Belgium, the Netherlands, Switzerland, Italy, Spain, Germany, Denmark, Sweden, Norway, Austria, and Russia (until 1919). Greece, Turkey, Portugal, Ireland, Iceland, Finland, Luxemburg, and Japan were left out because of the lack of consistent and easily accessible information on these countries over the chosen time period.

<sup>4</sup> The coalitional hypothesis cannot not be directly tested. The mere existence of protectionist support behind a government's protectionist policy does not reveal whether it is this support that is responsible for the government's protectionist orientation or whether it is the government's electoral commitment to protection that elicited this support in the first place (see Verdier 1994). The coalitional hypothesis could be tested indirectly, if coalition theory could break loose from this potential tautology by predicting political dominance—which parties won the elections—on the basis of the existing distribution of interests. However, to my knowledge, no one has so far tried to do so, and understandably so, given the intractability of the task. This constitutes, in serious restriction in the social scientific (as opposed to historical) use of coalition theory. The theory offered in this essay is not tested against the coalition theory hypothesis, because, other than for the trivial and almost always observed above-mentioned correlation between support and policy, there is no such hypothesis.

decisive, effect: Protection is a rent, and the total amount of rents distributed is a reflection of the type of political regime, irrespective of the trade preferences of the politically dominant producer groups. I first offer a (domestic) regime theory of rent seeking and trade protection and then review the historical evidence.

#### A REGIME THEORY OF RENT SEEKING AND TRADE PROTECTION

I start from a parsimonious notion of political regime, adding wrinkles and historical depth as I venture further. Assume that a regime consists of three groups of individuals: two “elites,” who participate in the policy process, and one indiscriminate group of “masses,” who do not. Assume that the elites face two options: collude or compete. If they collude, they can jointly exploit the masses up to the point of revolt. If instead they compete, seeking to tax each other’s wealth as well as that of the masses, these elites must lower the tax burden on the masses, since the amount of support that each elite can elicit from the masses is key in deciding which elites win or lose the intra-elite struggle.

This abstraction provides us with an insight in how autocracies and democracies levy taxes and redistribute the proceeds as rents. The first strategy—collusion between elites, coupled with exclusion and taxation of masses—corresponds with our general idea of autocracy. It is a regime in which a minority exploits the majority; the smaller the two elites, the larger the tax base and the higher the tax spoils are. In contrast, the second strategy—competition between elites and cooptation of masses—roughly agrees with our general understanding of democracy. Elites in a democracy maximize profits by raiding one another and promising tax cuts to masses in exchange for electoral (and other) support. More voters won to one’s side means greater capacity to raid the other side. Democracy is about competition among insiders and inclusion of outsiders; autocracy is about collusion among insiders and exclusion of outsiders.

What factors help determine the choice of maximization strategy, and thus the nature of the regime? The single most important element is the ratio of elites to masses. Colluding to tax the masses makes sense if there are lots of them (as there is a greater tax base) and the two elites are small (as there are fewer elites with whom to share the transfers). Conversely, promising tax cuts for excluded taxpayers willing to help one’s side tax the other side makes more sense if the other side is big (as there is a larger tax base) and the group of excluded taxpayers is small (as there are fewer individuals with whom to share the spoils). Somewhere between the two extremes lies a tipping point, prior to which elites find autocracy more profitable than democracy and past which the opposite is true. In sum, elites decide to shed the autocratic trappings of their rule when external events (war, revolution) force them to enlarge their ranks and cross over that tipping point.

What determines the ratio of elites to masses? For the sake of simplicity, I assume that this ratio mostly reflects events that are external to decision makers. Elites do not have the choice to exclude or include whomever they want.

For instance, entry in an autocracy may be forced on elites by special events (defeat, depression) increasing masses' awareness, organizational talent, and effective political contestation. Also full inclusion in a democracy may be so costly to reach in normal times, that many citizens ordinarily exit, refusing to participate in the policy-making process, and may even abstain from voting; only in the presence of special events (war, depression), heightening contestation and leading to partisan realignment, could full inclusion be reached.<sup>5</sup>

How does the nature of the regime (defined by its location on the continuum of the ratio of elites to masses) effect net transfers (taxes and rents)? The present model leads us to expect first a rise in transfers up to the tipping point, followed thereafter by a decline. The rationale is as follows. Starting from a low elites-to-masses ratio, cooptation has what may be called a "decapitation" effect on the masses that are left out. Imagine that individuals are lined up according to their respective organizational talent. Whenever the regime becomes more inclusive, the next group of individuals to be coopted is always the next most organized group in society. This is almost true by definition, since the very motive for inclusion is the capacity of these new classes of individuals to credibly threaten elites with revolt, should they remain excluded. Simultaneously, coopting the next most-talented individual in line is tantamount to stripping the residual masses from their best organizational talent and, thus, augmenting the masses' tolerance to exploitation. As a result, even though cooptation does shrink the tax base numerically, it allows the tax rate to be increased, thereby allowing total transfers to go up. Note that the elites, greedy or not, may face no better alternative. Both slashing the pork enjoyed by the dominant class, which presumably staffs the police and the military, and denying pork to the next most organized challenger class are risky strategies for the autocratic ruler.

The converse obtains in democracy (that is, past the tipping point)—greater openness reduces net transfers. More openness implies greater competition between elites. To rally electoral support, elites must lower taxes on the masses, since the latter are now being cast in the enviable role of median voter. Competing elites expect instead to raise revenues on the spoils of the defeated elite (for instance, the Left promises to raise taxes on large capitalists, whereas the rightist coalition promises to tax welfare payments). The higher the competition, the closer the elections: Each party expects a half chance of winning this time and losing next time around. Therefore, as democracy becomes more encompassing, taxes generate less, nearing zero on the vanishing masses and merely canceling out at each swing of the electoral pendulum on the momentarily defeated elite.

In sum, as the elites-to-masses ratio shifts from lower to higher values, net transfers over the long run do at first increase, then peak at the tipping point,

<sup>5</sup> I rely here on the findings of the "critical election" literature: that partisan realignment correlates with higher turnout and greater partisan discipline. For a summary of that literature and of the results, see Brady (1988).

and finally decline as competition heats up. Hence the following proposition: Whenever confronted with a surge in political contestation that obliges them to coopt the next best organized group in society, rulers are likely to increase rents in autocracies but decrease them in democracies.

Although the reasoning, so far, has borne on taxes and rents, it wholly applies to tariffs. Up to the 1930s, tariffs were an important, in some cases the most important, source of revenues for states. Simultaneously, tariffs were a much-sought-after source of rents. Although the tariff rent was allocated through the market rather than through the tax system, the government merely setting tariff rates, the rent-seeking logic should not significantly differ from the one discussed above.

Two additional assumptions will immensely simplify our handling of the historical record. First, I will only concentrate on periods of economic crisis. The reason for that restrictive choice stems from the need to focus on moments of surge in political contestation. Given the technical impossibility of offering tenable quantitative estimates of political contestation for seventeen countries over a century, I evaded the difficulty by concentrating the analysis on periods of severe, world-wide recessions. Economic recessions, especially those that last and whose effects are felt worldwide cause temporary increases in political contestation across nations. There were three of those in the period from 1830 to 1940 (1830s–40s, 1873–94, 1930–39).<sup>6</sup>

Second, I will adopt a uniform definition of autocracy and democracy. In order to be considered a democracy, a regime has to meet the following three requirements: first, competitive, as opposed to rigged, elections; second, the government is the expression of a majority of the electorate directly (presidential) or via a lower chamber (parliamentary sovereignty); and, third, the electorate includes most of the directly taxable wealth—in the nineteenth century, this included at least property owners and leaseholders. Autocracy means nondemocracy. The regimes that met these two requisites (and periods during which they did) were Switzerland (eighteenth century-), the United States (1814-), Belgium (1830-), Britain (1832-), France (1848–51, 1871-), the Netherlands (1848-), Canada (1848-), New Zealand (1853-), Australia (1856-), Spain (1868–74, 1931–36, 1977-), Norway (1884-), Denmark (1901-), Sweden (1905-), Italy (1913–22, 1945-), Germany (1919–33, 1945-), and Austria (1919–34, 1945-). Russia remained autocratic until World War I and was no longer a capitalist country thereafter.<sup>7</sup> To the historical record, we now turn.

<sup>6</sup> However, one should not necessarily expect economic prosperity to cause a fall in political contestation, since political contestation may outlast the economic crisis if it is artificially maintained through institutional devices such as the winner-take-all system and other causes of partisan football. Far from being automatic, this ratchet effect is a function of a series of institutional factors which defy systematization.

<sup>7</sup> My use of the labels “democratic” and “autocratic” does not rest upon an elaborate historical analysis, but are mere labels applied to formally defined categories. For a more thorough justification of the present categorization, see the appendix to Verdier (1998).

TABLE I  
*Regime Type and Trade Policy under Conditions of Higher Political  
 Contestation, 1830–48*

<i>Policy Outcome</i>		
<i>Regime Type<sup>1</sup></i>	<i>Low Rent</i>	<i>High Rent</i>
Democracy	Britain, Belgium, Netherlands, United States, Canada, Switzerland	France 1848–52
Non-Democracy	Norway, Denmark	Prussia, Sweden, Austria-Hungary, Russia <sup>2</sup>

*Note:* <sup>1</sup>Spain is excluded, for politically chaotic during that period. <sup>2</sup>Not a case of higher contestation.

#### 1830 – 1849: THE REVOLUTIONARY WAVES

Two consecutive waves of popular unrest occurred in the 1830–40s: The first in 1829–34; the second, in 1848. They affected all of Europe including North America, sparing only Russia. They were the offspring of the income-distribution effects generated by industrialization mostly felt in periods of economic downswings (1830 and 1847), as well of a failure in 1846 of both the grain and potato crops, responsible for the last major famine in Europe (Hobsbawm 1962: ch. 6).

A surge in political contestation, the argument goes, should be accommodated by cooptation and thus greater protection in autocracies but less protection in democracies. The hypothesized outcome is observed in the cases of six democracies and three autocracies (Table 1). The only exceptions are the French Second Republic, a newly established democracy that sustained protection, and Norway and Denmark, two autocracies that liberalized trade. I develop each case successively, starting with the democracies.

#### *The Democracies.*

The 1832 liberalization laid the ground for the first manifestation of party politics in British history.<sup>8</sup> Despite the limited extension of the franchise, the Anti-Corn Law League mobilized impressive support among voters and nonvoters alike, forcing parties to place the tariff on top of the electoral agenda. For the first time in British parliamentary history, Members of Parliament (MPs) took partisan positions on most of the political issues discussed in the House (Ay-

<sup>8</sup> The use of the phrase “party politics” to qualify the period of British politics between 1832 and 1846 is unusual; for a justification, see Verdier (1996).

delotte 1972). From 1832 until the destruction of Peel's Conservative party in 1846, Britain can be considered as a competitive democracy. The intended outcome of this agitation was the reduction of the tariff. Until then the King's minister had consistently tried to accommodate manufacturers' demands for free trade by repealing all prohibitions and reducing tariffs on manufactured goods without undercutting the landed gentry's and the merchants' rents generated by the Corn Laws and the Navigation Laws respectively. In 1846, in the midst of the Irish potato famine, the manufacturers managed to turn the issue of protection for grain into a key electoral issue pitting capital against land. The pressure was such that a Conservative minister tried to preempt an impending electoral realignment by proposing the repeal of the Corn Laws, which was soon followed by the repeal of the Navigation Laws (see contributions by, and to, Schonhardt-Bailey 1996).

Similar scenarios unfolded in other states. In the Netherlands, the 1848 Constitution turned that nation into a parliamentary democracy. Until then, trade policy had reflected the preferences of Dutch merchants for navigation laws and agrarians for grain tariffs. During the constitutional debate, grain tariffs were lowered, while protection for Dutch shipping was repealed in 1850 (de Réus and Endt 1892; Kossmann 1978). Belgium formally became a parliamentary regime in 1830 but had to wait for the 1847 extension of the franchise to develop a party system. Following the 1830 separation with the Netherlands, newly enfranchised industrialists had the Belgium parliament immediately raise the tariff (1834). Belgian industrialists were protectionist because Belgian industry, albeit ahead of the rest of the continent, was still lagging behind British industry. Protection climaxed in 1844 but, following the formation and electoral victory of the Liberal party in 1846, Belgium began to open, albeit timidly at first (Mahaim 1892). Switzerland was another democracy in Europe that pursued free trade. This case constitutes *prima facie* weak evidence for our prediction, however, since Switzerland was already pursuing free trade in the pre-crisis period. This lack of variation on the dependent variable calls for further elucidation. Before 1848, free trade was allowed only for institutional reasons: It reflected the lilliputian size of Swiss cantons, which controlled the power to tax (Bosshardt 1970:35). Following the 1847 military victory of republican over clerical cantons, tariff making was centralized. The liberals took over the government, and the federal tariff reflected the free-trade preferences held by merchants and large manufacturers at the expense of producers of foodstuffs and raw materials, artisans, and small manufacturers (Frey 1892:456–60). Therefore, openness after 1848 did reflect the victory of free traders over protectionist interests in a contested democratic setting.<sup>9</sup>

While Europe was embroiled in popular unrest, Andrew Jackson's reformism

<sup>9</sup> Free trade after 1848 cannot have merely reflected the small size of the country, given that small size did not stop the country from deliberately embracing protection in the 1890s.

in the United States initiated a period of party politics as well. Whereas the 1824 tariff had been a textbook case of pork-barrel politics in which capitalists successfully forced their protectionist preferences against the opposition of farmers (Pincus 1977), the tariff was modified along partisan lines from 1830 until the Civil War every time both branches of government (the executive branch and Congress) were in the hands of the same party: up (1842) if Whig, the party of capital; down (1833, 1846, 1857) if Democrat, the party of land (Silbey 1967). The overall effect was a sharp decline in the tariff (U.S. Bureau of the Census 1976, Series U-207 and Y-353).

Canada was at first controlled by provincial oligarchies rallied around British governors. The several rebellions of the 1830s led London to grant the principle of responsible government in 1848 (Finley and Sprague 1984:chs. 8–9). This injection of democracy corresponded with the opening up of trade with the United States. Until 1846, an abundance of land had made Canada an export-oriented economy, though not a free trader. As long as Canadian grain enjoyed a rent in the form of privileged access to the British market, the otherwise uncompetitive farmers of the eastern provinces managed to have U.S. wheat taxed. After the loss of the British preference in 1846 forced eastern farmers out of wheat growing, competitive western farmers and merchants, now looking for an alternate market, induced the government to sign the 1854 Reciprocity Treaty with the United States (Easterbrook and Aitken 1988).

The only exception to the hypothesized correlation between the rise of political contestation and open trade in democracy is the French Second Republic (1848–51), which, within its short existence, did nothing to lower existing high tariffs (Devers 1892:130). The search for rent remained the order of the day, as under the prior constitutional monarchy, a regime whose trade orientation reflected the combined interests of the industrial bourgeoisie and the landed gentry, especially the owners of large wooded estates supplying charcoal to the iron industry (Weill 1912:266).

### *The Autocracies.*

But while the rise in political contestation was favorable to free trade in democracies, it had opposite consequences in most autocracies (Prussia, Austria-Hungary, Sweden). These autocracies had abundant land, and had until then been governed by, and for, the gentry, with little concern for industry. Throughout the 1820s and 1830s, Prussia and Sweden had vainly prodded Britain to open its market to their wheat and timber, offering to lower their industrial tariffs in exchange. But after 1846, the political instability of the revolutionary years weakened the power of land on the continent. The political rise of the bourgeoisie put the gentry on the defensive and made it unlikely that a trade liberalization would be adopted that could upset new industries and exacerbate revolutionary fervor.<sup>10</sup>

<sup>10</sup> In Sweden, for instance, the March riots of the 1848 revolution aborted the tariff liberalization of 1847 (Hovde 1943:235).



Norway and Denmark are two exceptions to that trend. Although autocratic, they responded to popular unrest—Norway by reducing several tariffs on manufactured articles and Denmark by sticking to free trade. Part of the reason is that the coopted group was not the industrial bourgeoisie but the small farmers whose protective tariffs were spared by the tariff reductions (Lieberman 1970: 167). The Danish case is quite clear. As redrawn by the Congress of Vienna, Denmark had no industry in the kingdom proper—industry was concentrated in the separatist Duchy of Holstein. Land and commerce dominated the economy, while an oligarchy of bureaucrats related to mercantilist interests dominated the polity. Therefore, when Denmark became a constitutional monarchy in 1848, this liberalization did not empower protectionist industrialists but merely agrarians. The liberals governed with the support of the party of the small landholders (the *Venstre*), for whom the removal of the English duty on grain was a bonanza (Drachmann 1915:ch. 1). The Danish experience and, to a lesser extent, the Norwegian one as well, point to an extreme case not taken into account by the theory: a case in which the simplified class structure of the society forces the autocrat to coopt a majority of the population, thereby lowering (or at least not increasing) prior rents.<sup>11</sup> Russia was autarkic, yet for reasons that have nothing to do with the crisis, since it was not affected by that crisis. The Russian case falls outside the actual domain of relevance of the present theory.

#### 1874 – 1914: THE LONG DEPRESSION AND ITS AFTERMATHS

We jump over the transitory period of 1850–73, characterized by political stability and free trade, to the second depression of the century—the 1874–94 depression. The free trade equilibrium of the 1860s was soon shattered by a sudden realignment in factor endowments. The opening of new lands in the United States, Canada, Australia, and Russia, combined with the decrease in transport costs, nixed the comparative advantage enjoyed by agriculture on the European continent. In the absence of equivalent demand for manufactures by these new countries—American and Russian industries after 1877 were walled off by tariffs—national income dropped. The upshot was a global crisis that impoverished not only the countries directly affected by the reclassification of land as scarce factor but also their new rivals, negatively affected by the worldwide drop in grain prices and suffering from the shrinkage in world demand (Bairoch 1993: Table 2.2: 24, 48–49). In all countries, the crisis depressed national income and intensified political conflict.

The regimes generally accommodated the rise in political contestation by opening up participation to previously excluded groups. Countries already equipped with democratic institutions experienced a competitive partisan re-

<sup>11</sup> One may recall that “autocratic” Denmark and Norway had in 1848 two of the most liberal franchises in Europe: universal in Denmark, 28 percent of the male population above legal voting age in Norway (Flora 1983: ch. 3). Furthermore, the Norwegian parliament featured no high, aristocratic, chamber.

TABLE 2  
*Regime Type and Trade Policy under Conditions of Higher Political  
 Contestation, 1874–1913*

<i>Policy Outcome</i>		
<i>Regime Type</i>	<i>Low Rent</i>	<i>High Rent</i>
Democracy	Britain, Belgium, Netherlands, United States, New Zealand	France, Switzerland, Norway, Canada, Australia
Non-Democracy	Denmark	Germany, Austria- Hungary, Sweden, Italy, Spain, Russia

alignment along the farm-factory divide (Britain, Belgium, the Netherlands, Switzerland, Norway, the United States, Canada, Australia, New Zealand), with France being the exception. In contrast, monarchies (absolutist or constitutional) could not afford class confrontation, lest their rule be challenged. Instead, they coopted industrialists (Russia, Sweden, Germany, Austria-Hungary, Italy, Spain), with Denmark being the exception.

Democracies tended to generate fewer rents than autocracies, a result that I would argue could be predicted when political contestation is present. Out of the 10 democracies, voters sustained free trade in 3 (Britain, Belgium, the Netherlands), chose protection first but switched back to freer trade as the world economy recovered in 2 (the United States, New Zealand), and upheld protection throughout in 5 (France, Switzerland, Norway, Canada, Australia). Out of the 7 autocracies, governments sustained free trade in 1 (Denmark), chose protection first and then switched back to free trade in none, and sustained protection throughout in 6 (Germany, Austria-Hungary, Sweden, Italy, Spain, Russia). Overall, although the partisan dynamic characteristic of most contested democracies generated no discernible trend (5 cases of greater protection against 5 cases of lower protection), the arrangements to maintain the status quo pursued by embattled monarchies definitely pointed in the direction of protection (6 cases of greater protection against 1 case of lower protection).

### *The Democracies.*

A first group of democracies includes those in which agrarians were protectionist: Britain, Belgium, the Netherlands, Switzerland, France, and Norway (democratic since 1884). In all five countries, the crisis led to the electoral mobilization of agrarians. The prediction of greater openness, however, is upheld in the cases of Britain, Belgium, and the Netherlands, though not in the cases of France, Switzerland, and Norway. In Britain, Belgium, and the Netherlands, the agrarians were too few to be the swing vote. Although conservative parties

typically endorsed agrarian demands for protection, once in government, they could not pass protectionist legislation. As a result, the swing back to conservative or catholic dominance from the 1880s onward did not really endanger the free trade status quo, or, when it did, as in 1907 Britain and 1911 Netherlands, the median voter favored free-trade liberals.<sup>12</sup> In these three countries, conservative governments sought an indirect way of compensating traditional industries (textiles) for the fall in income through colonial expansion. Colonial expansion was also a way of compensating the old landowning families traditionally overrepresented in the military.

In contrast, the rise in political contestation led to a deepening of rent seeking in France and, though to a much lesser extent, Switzerland and Norway. The prediction that these states would offer greater openness seems to fail because the median voter (small farmers) belonged to a scarce factor in France and Norway, while agrarians were overrepresented by the federal structure in Switzerland. All three countries were nations in which the farm vote was potentially decisive and in which farmers were awakened by the crisis to the need to participate in politics. Politicians took notice and engineered a corporatist agreement between land and capital behind a rent-for-all platform.<sup>13</sup>

The existence of such a deal, however supportive of a coalitional explanation, does not necessarily falsify the present theory, provided that it can be shown that the encompassing nature of the tariff agreement forced the parties to agree that overall levels of protection should be kept low. As previously explained, there is an analytical reason for why this should be the case when the median voter is party to a deal. Unlike an interest to the kind of bargain arranged in an autocracy, the median voter in a democracy refrains from asking for too many rents, lest he tax himself, due to the small number of taxpayers left to pay for the rents. One may test this hypothesis by comparing average tariff estimates across a number of countries. Tariffs should be lower in democracies which included the median voter in their protectionist deals (France, Norway, and Switzerland) than in autocracies which excluded voters from such deals (Germany, Austria-Hungary, Sweden, Italy, and Spain). Unfortunately, this hypothesis also fails: A cross-country tariff comparison suggests that this logic worked, if at all, in the case of Switzerland alone; France and Norway had higher protective rates than Germany and Austria-Hungary.<sup>14</sup> These countries witnessed a rather perverse case of rent cancellation: Net transfers were

<sup>12</sup> On the Netherlands, see de Vries (1978:78). One must note a minor exception in the case of Belgium—that Catholics passed in 1887 a tariff on horses, husbandry animal, and meat on a straight partisan vote (Mahaim 1892).

<sup>13</sup> The French Meline tariff of 1892 was dubbed the “alliance of iron, cotton, and wheat” by Herman Lebovics (1988). See also Smith (1980). For the Norwegian tariffs of 1896 and 1905, see Lieberman (1970: 165–77). For the two tariff referenda (1891 and 1902) and the corporatist compromise (1902) between organizations of farmers, workers and artisans, and merchants and industrialists in Switzerland, see Frey (1892: 512–7) and Bleuler (1929: 64–81).

<sup>14</sup> Bairoch (1993:26) gives the following estimates of the percentages of import tariff levels around 1913: Switzerland, 4.4; Austria-Hungary, 7.6; Germany, 7.9; France, 8.7; Italy, 9.7; Norway, 11.4; Spain, 14.3.

reduced through the generalization of rents. Although economically inefficient and unsustainable over the long run, this solution may have been the only one that was politically available in light of the embryonic competition between political parties.

A second group of democracies—the United States, Canada, Australia, and New Zealand—had abundant land. In all four of them, the crisis intensified political competition and led to a partisan realignment. The predicted trade orientation, greater openness, is upheld in the cases of the United States and New Zealand but not in the cases of Canada and Australia. Consider the U.S. case. The fall in agrarian prices mobilized the farmers, leading the Democratic party in 1888 to revive its ante-bellum championing of free trade. The Democrats won the 1892 election, and Congress lowered tariffs in 1894. Although the Democratic party soon fell apart and retreated to the South, the abundant factor's preference for low tariffs remained represented, since the necessity to keep the median voter (the farmers) forced the Republican leadership to make concessions to its center faction of Midwestern insurgents by lowering steel duties in 1909. The return of the Democrats to power in 1912 led to the comprehensive reductions of the 1913 tariff (Verdier 1994). In New Zealand, the crisis was the catalyst to the first party system of 1891, pitting free trade conservatives (big sheepfarmers) against the protectionist Liberal-Labour party, a coalition of workers, businessmen, and farm laborers. The protectionists won the small farm vote—the swing vote—in 1891 but lost it to the conservatives (Reform party) in 1912 (Condliffe and Airey 1960).

In Canada and Australia, the crisis was met by a tariff realignment favorable to protectionists that was still unchallenged by the outbreak of World War I. In Canada, the party of the agrarians—the Liberals—were initially in power. After a reciprocal trade treaty negotiated by the Liberal government was rejected by the American Senate, the Conservative, Sir John Macdonald, who won the 1878 election on a platform of protection for industry, raised tariffs in 1879. The Liberals countered by campaigning in 1891 for reciprocity with the United States, but lost. Back in power in 1896, the Liberal, Wilfrid Laurier, contented himself with token reductions on farm implements to please the farmers until growing discontent in the Prairie in 1911 led him to campaign for reciprocity with the United States once again, only to lose once again. In Australia, the crisis polarized the bourgeoisie into Freetraders (supported by pastoralists and traders) and Protectionists (manufacturers and their employees). The Protectionists won in 1908; the Labour party converted to protection in 1910; and a new free trade party (the Country party) was formed in 1914 (Ward 1977).

### *The Autocracies.*

In six autocracies, land became scarce as a result of the crisis (Denmark, Germany, Sweden, Austria-Hungary, Italy, and Spain). With the exception of Denmark, in all of them, as the theory predicts, the intensification of political con-

testation led to the generalization of rent seeking. Note how the present theory diverges from coalition theory with respect to these countries (Gourevitch 1986; Rogowski 1989). According to coalitional theorists, the only motive for resorting to protectionism was the change in factor scarcities. As a result, coalition theory accounts for farm, but not manufacturing, tariffs. I argue instead that there was a need to bring bourgeois elements into the coalition, since giving protection to agriculture alone in a period of heightened political contestation was politically unsustainable. Let us now look at each country.

Germany had a wide franchise but no true parliamentary rule. Parliament accommodated mass parties, each representing whole or part of a social class; but these parties never governed. The country was governed, instead, by Junker (large-estate owner) politicians or bureaucrats answerable to the Kaiser. They ruled by brokering the procedurally required support in parliament, which rotated not with government composition but the issue taken up for consideration. Free trade had the support of the Junker and working-class parties until 1878. In that year, those advocating land allied themselves with those of protectionist heavy industry, creating the iron-and-rye coalition, which would support almost all the imperial ministries until World War I, except for the Caprivi ministry (Barkin 1970; Lambi 1963; Nichols 1958; Tirrell 1951). At the lowest ebb of the depression, Caprivi acceded to industrialists' collective demand (steel included) for foreign markets by negotiating ten-year-long trade agreements, primarily with grain-producing countries. In other words, Caprivi sought to coopt the challenger class by reducing significantly the rents of the dominant class—an impossible task in an autocracy, in which the dominant class staffs the police and the military. The Junkers revolted; Caprivi was ousted in 1895; and the trade policy was reversed in 1902, as soon as the treaties expired. Concentrated industries (mostly heavy) sought instead a substitute in the form of imperialism and building a navy (Wehler 1985).<sup>15</sup>

Land-capital protective coalitions also formed in other monarchies. In Sweden, the 1887 election featured a duel between protectionists (grains, textiles, iron) and free traders (dairy, machinery, and shipping), registering a record electoral participation. Policy began to oscillate in a way characteristic of party politics: The protectionists officially won in 1887 and raised the tariff, whereas the free traders won the 1890 elections and lowered the tariff. Scared by the threat

<sup>15</sup> An anonymous reviewer questioned my categorizing of Germany as an autocracy but France as a democracy, even though the two regimes were equally protectionist; why not assume instead that a fully democratic Germany would have behaved the same? The fact is that Germany in the second half of the nineteenth century was more industrialized than France. Demographics suggest that the median voter changed from being an agrarian to being a worker in Germany in the 1890s; the same did not happen in France until the 1950s (Flora 1983: ch. 3). Therefore, the Weimar Republic empowered workers and reduced German tariffs (see below); the French Third Republic rested upon the support of small farmers and did not reduce its tariffs, except tentatively in 1936, when the Popular Front was momentarily (and prematurely) thrust into power. Of course, French farmers' preference for protection is a challenge for the present theory, since, being the majority of the population, they probably suffered as much as they gained from protection.

that the partisan dynamic would impose parliamentarization on his rule, the King used the dissolution prerogative to rescue constitutional rule from the popular mandate. In 1894, pressed by the monarch to reach a compromise, both sides agreed to the terms of a tariff similar to both the French and German tariffs—a “solidarity” policy that favored all the branches of the economy at the same time (Gourevitch 1986: ch. 3; Heckscher 1963:239; Lewin 1988; Oakley 1966). The establishment of democracy in 1905 in Sweden, which failed to unravel the 1894 compromise, weakens my argument, perhaps; but by then, however, the recession was over, and a democratic regime could afford (though did not have) to be noncompetitive.

Italy, like Germany, had a rigged parliamentary regime. Once unification was completed in 1870, political elites institutionalized rent seeking. Wary that a two-party dynamic might endanger the geographic integrity of the new state, proponents from both the right and left agreed to rig elections and alternate in power without competition, a system known as *trasformismo*. The upshot, the 1887 tariff, reserved the domestic market for *latifondisti* (sugar beet, wheat) and Northern industrialists (textiles, steel) (Webster 1975: ch. 1).

In Austria-Hungary (Edie 1989) and Spain (Carr 1966:394) too, latifundists allied with industrialists. The Spanish case is all the more interesting that, the triumph of competitive democracy in 1868 with the advent of the First Republic, presided over the first tariff liberalization of 1869, whereas the replacement of democracy in 1875 by a rigged parliamentary monarchy (*turno pacifico*) brought an immediate end to trade liberalization followed, in 1891, by a rise in protection (Gwinner 1892:70–80).

The only exception to the hypothesis that autocracies respond to an increase in political contestation through the multiplication of rents is Denmark. In Denmark, farmers managed a successful technological reconversion from cereal to meat and dairy. Feeding unprotected grain to their livestock while farmers on the rest of the continent were forced to use protected grain, Danish farmers cornered the British market. Despite innumerable attempts on the part of fledgling Danish industrialists to raise tariffs, agrarians forced them further down (Drachmann 1915:ch. 1). Denmark became a democracy in 1901, with no prejudice to free trade—a continuity that, a priori, neither confirms or disconfirms the present theory, since, as already mentioned in the case of Sweden, this theory is silent about the degree of contestation conveyed by democracies in periods of prosperity.

The last case is Russia, another autocracy. Russian trade policy, past 1868, reverted to protectionism. After a period of openness designed to import the railway technology that had proven so wanting during the Crimean War (1853–56), the regime opted for import-substitution in order to lighten the foreign debt and consolidate native industry. The regime granted exorbitant privileges and subsidies to industrialists, the cost of which was paid by the peasants and the urban poor (Gerschenkron 1962:ch. 6). The rationale for this policy,

however, is ambiguous. Whether the cooptation of the industrial element was motivated by the fear of bourgeois unrest, as the present theory would suggest, or the constraint of military competition, as mainstream historiography argues, or both, is unclear.

#### THE GREAT DEPRESSION OF THE THIRTIES

The Great Depression of the 1930s mobilized both farmers and workers. The crisis either caused party systems to realign along class lines or, in a few countries, to bury democracy altogether. In either case, the crisis caused the trade orientation to flip. Furthermore, as theory predicts, democracies tended to generate fewer rents than autocracies, when subject to a rise in political contestation. All 3 autocracies pursued autarky (Italy, Germany, and Austria). Among the 13 democracies, governments sustained free trade in one (Spain), protected and then opened again in 9 (the United States, Australia, Switzerland, Belgium, the Netherlands, Denmark, Sweden, Norway, and tentatively in France), and remained wedded to protection in 3 (Britain, Canada, and New Zealand). World War II came too quickly for the last three countries to experience partisan alternation and, thus, a moderation in protection.

#### *The Democracies.*

Consider first the case of European democracies, in all of which labor was abundant relative to land and thus socialist parties advocated free trade whereas agrarians advocated protection. In countries where it was “out,” the crisis brought the left back in coalition with protectionist agrarians. Although the deal with the agrarians forced socialists to give up their free trade stance, socialists still managed to lower protection on non-agrarian goods, once the economy recovered. In Sweden, Norway, and Denmark, this scenario led to agreements between organized labor and concentrated capital which laid the groundwork for the founding of social democracy (Esping-Andersen 1985; Katzenstein 1985:

TABLE 3  
*Regime Type and Trade Policy under Conditions of Higher Political Contestation, 1930–39<sup>1</sup>*

<i>Policy Outcome</i>		
<i>Regime Type</i>	<i>Low Rent</i>	<i>High Rent</i>
Democracy	France, US, Australia, Denmark, Sweden, Norway, Spain, Switzerland <sup>2</sup> Netherlands, <sup>2</sup> Belgium	Britain, Canada, New Zealand
Non-Democracy		Germany, Italy, Austria

*Note:* <sup>1</sup>Russia is excluded for no longer a capitalist country. <sup>2</sup>Not a case of higher contestation.

140–3). France was an exception. A similar attempt there between workers (Socialist and Communist) and agrarians (Radical) foundered one year after it materialized (Gourevitch 1986:ch. 4). Political contestation grew so intense in Spain that autocracy was ended and the Second Republic proclaimed in 1931. The autarkic policy of the prior de Rivera regime was terminated, and import prohibitions were repealed (Florensa 1979). The Republic, however, was short-lived, ended by the outbreak of the Spanish Civil war in 1936, which lasted until 1939.

In Britain, in contrast, where the left was in power in 1930, a capital-agrarian coalition swept the Conservatives in power on a platform of tariffs and imperial preferences. World War II intervened before the badly fractured Labour Party had the time to regroup and force the Conservatives to moderate their tariff stance. Still, the Conservative government could not afford to entirely overlook the median voter, lest it hasten Labour recovery. As a result, Conservatives in 1933 began to revise tariffs downward through the signing of multilateral agreements with Commonwealth countries and bilateral agreements with other countries (Kottman 1968; Tasca 1939). Although the policy trend pointed in a direction compatible with our theoretical expectations, results were too scant, however, to support the notion that British policy was reducing rents.

Consider now the case of non-European democracies, where workers were protectionist (or indifferent as in the United States) and farmers were export oriented. In the United States, the crisis booted out the Republicans and ushered in the Democrats, who rode in on the electoral strength of a “red-green” compact, in which labor accepted higher food costs in exchange for the farmers’ support of social insurance and higher labor costs (Gourevitch 1986: ch. 4). The 1934 Reciprocal Trade Agreement reduced protection for manufactures. Surely, the New Deal to a large extent substituted new rents (price supports, social insurance) for old ones (tariffs); still, except for price supports to specific crops, the new rents, those given to labor especially, were more encompassing than the old ones, less likely to distort market prices (Olson 1990), and less likely to elicit rent seeking than the old tariff.<sup>16</sup> In Australia, the ultraprotectionist Labour party was in power in 1930; and the conservatives won the 1931 elections. Five years later, that same government reduced the tariff through the signing of bilateral agreements (Ward 1977). However, in Canada and New Zealand, where farmers were in government prior to the crisis, protectionist industrialists captured policy making and tenaciously steered it in the direction of greater protection. In New Zealand, the Labour party won in 1935 and gave import licenses to industry; dairy farmers were compensated with price supports (Condliffe and Airey 1960). In Canada, the Tories won the 1930 election

<sup>16</sup> The devaluation of the dollar should also be analyzed in that perspective: It raised the level of protection but did so across the board, without eliciting sector-based lobbying.



on an ultra-protectionist platform and raised the tariff by 50 percent (Finley and Sprague 1984). Even more so than the British case, the New Zealandese and Canadian cases rebut the present theory.

The small European countries (Belgium, the Netherlands, and Switzerland) constitute another anomaly. No partisan realignment, and hardly any policy change, occurred. Although these countries adopted protectionist measures in response to the crisis, they did so more in response to their environments than as a result of domestic partisan realignments (Hansen 1981; Klein 1975; Rut-tieux 1978). Overall, they remained wedded to free trade. The lack of variation in the dependent variable (policy orientation) does not necessarily disconfirm the prediction, since there was also no variation in the independent variable (political crisis); it limits the domain of relevance of the theory nevertheless.

### *The Autocracies.*

The German case behaved according to predictions. Despite its absolutist claims, the Nazi regime was a contested autocracy. It not only was the offspring of a rise in popular discontent but took policy measures, along with police ones, that were aimed to contain that discontent. The so-called totalitarian nature of the regime was less a cause of mass demobilization than the reflection of the need, during the depression, to channel pre-mobilized masses into pro-Nazi mass organizations (Luebbert 1991). The move into autarky replicated the iron-and-rye coalition which had sustained the Kaiserreich but which the Weimar Republic had dismantled. Weimar, an example of party politics (contested democracy), empowered the Socialists, the party of a working class which, like all other European working classes at the time, adopted a consumer outlook to tariffs. The coalition of labor with export producers provided the political basis for a policy of open trade. From 1925, when Germany obtained trade freedom, until 1930, when the bottom fell out of the world economy, the labor-export coalition was responsible for treaties with a dozen countries which negatively affected German agrarian producers (Abraham 1986:186).<sup>17</sup> The ensuing Nazi regime pursued a policy of autarky, reserving the domestic market to German agrarians and defense procurements to German industrialists.

The other two autocracies (Italy and Austria) pursued protection, as the theory would predict they would. However, the fact that both were already engaging in protection before the crisis requires further analysis. No policy change is observable in the case of Austria in spite of a profound regime change. However, Austria switched from being a noncontested democracy to being a contested autocracy, both forms expected to uphold high levels of rents. In the Italian case, the lack of variation in the dependent variable may be viewed as the artificial outcome of the research design, which dates political contestation

<sup>17</sup> The protectionist section of industry, heavy industry, was not negatively affected by trade openness because their markets were protected by international cartel agreements.

to 1930. In Italy, however, political contestation actually began right after the war (Luebbert 1991). Otherwise the fascist regime matches our predictions for contested autocracies: It sought autarky, an objective that reflected the preference of the scarce factor (land) at the core of the regime (as well as Mussolini's respective security fears and ambitions, of course) (Rogowski 1989:76, 78).

#### CONCLUSION

Nineteenth-century autocracies managed to deflect liberal assaults as long as they could unburden onto others the costs of including politically threatening groups. Autocrats sought to ride the waves of popular discontent, which hit them with the regularity of the business long cycle, by pursuing decapitation strategies: By coopting the next best organized group in society (industrialists), they would deprive from their natural leaders those who were left out. The decapitation strategy worked as long as the per-capita rents of the elites were not threatened, that is, as long as the losses in rents prompted by a shrinking tax base could be offset by a higher tax rate. The upshot was a rise in transfers. Taxing all for the benefit of a few, tariffs were key in accomplishing this redistribution.

Most democracies—except for Britain, Belgium, and Switzerland—distributed as much protection through the tariff as autocracies. The difference lay in the ways in which they responded to surges in popular discontent. Because they already included large sections of the population, elites in democracies could not seek solace in pork logrolls but had to secure electoral support by cutting rents on masses. The partisan dynamic thus led parties to shift the tax burden away from the median voter toward the other party's loyal constituents, with the predictable result that elections were closely contested and that net transfers, over time, more or less cancelled out. In democracies, therefore, the effect of political contestation was to reduce protection rents.

The present findings have consequences for international stability. Autocracies are likely to cope with domestic unrest by shifting the problem to other governments. They tend to unload their internal problems on their trade partners, at a time when those partners are already experiencing problems of their own. If the latter's capacity for absorption is stretched to the limit, international tension may ensue. A case of heightened internal political risk is thereby transformed into a case of heightened military risk.<sup>18</sup> In contrast, democratic governments on average seem better equipped to cope with internal stress on their own, without much outside help.

Of course, the argument can be faulted on several counts. Empirically, the evidence is tentative. Out of the 46 cases examined, the central prediction was found to be right in 30 cases, false in 12 cases, and irrelevant in 4 cases.<sup>19</sup> More-

<sup>18</sup> Of course, war does not necessarily ensue; war has its own rules of engagement.

<sup>19</sup> Supporting the argument are all the cases listed (30) in the northwest and southeast quadrants

over, the tariff may have constituted the most important source of rent throughout the period but was not the only one. If other rents were representative of the tariff, the present results should hold. If instead these other rents were used to offset some of the worst redistributive effects of the tariff, then the results may be modified. I do not claim to have proven wrong the prevailing coalitional line of argument, according to which protectionism reflects the political ascendancy of import-sensitive sectors. The wave of protection that spread throughout Europe in the 1880s and 1890s would be unintelligible without a reference to the political clout enjoyed by the agrarians. Still, tariffs are particularistic rents, and democracies simply must curtail particularistic rents out of political and economic necessity.

Analytically, the argument is what specialists of international relations call “unit level” (Waltz 1979). It focuses on the impact of regime type and political contestation in one country at a time, holding all other countries constant. Yet, because it takes two to trade, results are sensitive to systemic effects. For instance, democratization may inversely impact the unit- and system-levels, causing a policy change in one direction when affecting only one country but in another when affecting all countries simultaneously. To control for such perverse effects, one would need to raise a question of a different order than the one we started with: Is democratic convergence conducive to trade liberalization?<sup>20</sup>

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in the four tables; refuting it are those (12) in the northeast and southwest quadrants, and making it irrelevant are all the starlit cases (4).

<sup>20</sup> This is the topic explored in Verdier (1998).

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